Bharatiya Vidya Bhavan's
SPJIMR

# INDIA

## STATE OF THE FAMILY BUSINESS REPORT

September 10, 2023

**CENTRE FOR FAMILY BUSINESS & ENTREPRENEURSHIP**

# Foreword

It is with great pleasure that we present the second Half-Yearly "State of the Family Business Report for India" for the calendar year 2023. The report is envisaged to provide a comprehensive and in-depth analysis of the key characteristics of Indian family businesses, especially the small and medium enterprises, both on the family and the business side. Besides, it also seeks to understand the dynamic trends that shape the very essence of this pivotal sector. The offering a comprehensive analysis of the dynamic landscape of family businesses in the nation. Our findings paint a vivid picture of the challenges, successes, and evolving strategies that shape the family business ecosystem, even as the key players of this ecosystem – the family businesses themselves – grapple with fast-changing technology, a changing business landscape and changing family dynamics within multi-generational businesses.

We surveyed 357 family businesses from 17 cities across India, with Hansa Research conducting the surveys on our behalf. The diverse spectrum of family businesses surveyed spans micro to large enterprises, with a majority leaning towards the service sector. This mirrors the prevalent trend of smaller-scale enterprises in India's family business realm. The multi-generational dynamics at play were also evident, with over 50% being first-generation businesses and the second generation actively participating in 70% of the cases.

The ownership distribution emphasizes the closely held nature of these businesses, with FB respondents stating clearly that they would take great care to retain business control and independence, and not prefer changes in the structure of FBs. Interestingly, the report underscores that even long-standing firms have primarily remained in the micro or small category, which provides intriguing insights into the scaling patterns of family businesses.

Gender inclusivity emerges as a promising aspect, with a significant presence of female family members actively involved in the businesses. While representation is robust at the management level, female involvement at the CEO and senior leadership levels warrants further attention. Despite the FBs surveyed having taken steps towards inclusion of women in their businesses, the proverbial “glass ceiling” still continues to remain in family businesses, with women not occupying commanding roles. Geographical variations highlight regional nuances in female participation.

Our report further highlights the various dimensions of business and family challenges faced by these enterprises, even while the FBs surveyed seem to be optimistic both about the business performance in the previous year and the future business environment. The performance of the FBs, especially the micro, small and medium FBs, on various business parameters, including

sales, market shares, profitability, profit margins on sales, ROA, ROE and the numbers employed, presents a very optimistic picture of recovery post-Covid within India. It also points to an environment characterised by business optimism among the SMEs.

Growing competition, cost increases, and shifting consumer preferences are among the key business challenges, while issues of succession planning and well-defined roles within the family emerge as pivotal family challenges. Such challenges were felt more by micro and small than by medium or large enterprises.

The State of Family Values section underlines the importance placed by Indian family businesses on a clear set of values and a code of conduct. While many operate on oral traditions, values remain deeply integrated into their operations, underscoring the quintessential bedrock of family business success and prosperity.

As we explore the succession pathways in FBs, we find that the ability to lead and manage people is a key trait desired in a successor. The intent to hand over the business to the next generation is present, but the timing and readiness for this transition vary among respondents. The temporal ambiguity and the reasons cited for not "letting go" presents an intriguing narrative, even as the report explores the opinions and mindsets of the senior and the next generations in this context

Our report also shines a light on the journey of SMEs towards digitalization. While a majority of family businesses seek to enter the online sales arena for several reasons, there are clear preferences regarding the timing and the modes of such digitalization, particularly among SMEs. The preference for e-commerce platforms, marketing tools, and future plans for online sales reflect the sector's evolving engagement with the digital world.

This report points to the resilience and adaptability of family businesses in India, even as it highlights critical issues especially regarding family governance aspects which might impact the trajectory of Indian FBs in the times ahead. It is our hope that these findings provide valuable insights for family business leaders, policymakers, and all stakeholders invested in the growth and vitality of this vital sector.

Sincerely,

**Tulsi Jayakumar**

Professor, Finance & Economics
Executive Director,
Centre for Family Business & Entrepreneurship
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# KEY FINDINGS

Our study delves into the profile of family businesses in India, highlighting key characteristics and trends across various dimensions. The survey encompassed 357 family businesses from 17 cities across the nation, providing a comprehensive insight into the landscape of FBs, especially Small and Medium Family Businesses.

The survey encompassed **357 family** businesses from **17 cities** across the nation

## Business Profile

The surveyed businesses consisted of 137 micro, 136 small, 66 medium, and 18 large enterprises. In terms of sector distribution, 63% were service based, while 37% belonged to manufacturing. Notably, 83% of manufacturing businesses were micro or small, compared to 73% in the service sector. The representative sample reflected the prevalence of smaller-scale enterprises among the FBs surveyed

## Generational Involvement

The first generation involvement continued in more than 50% of the businesses surveyed, while most FBs were second-gen businesses, with the second generation being active in 70% of the businesses. A small proportion of FBs had transitioned to having the third generation actively involved. The first-generation involvement was more pronounced in smaller-sized enterprises.

## Ownership Distribution

Family ownership remained dominant, with 51% of enterprises reporting 100% family shareholding. 63.3% held over 75% of the shares, emphasizing the closely held nature of family businesses in India.

## Business Age

• None of the surveyed businesses were less than 10 years old. However, as corroborated by the data on generations in business, a majority of the FBs were 25 years or younger, while almost 30% were between 26 and 50 years old. Only a few enterprises surpassed the century mark in terms of age, with the average age of businesses being 26.5 years, reflecting the transition to the second generation.

• However, more importantly, of the firms which surpassed the 25-years mark, the majority were micro and small firms. It appears that even long-lasting firms have not scaled beyond their micro or small size.

## Gender Inclusivity

• Our data revealed that a majority of the FBs surveyed did have female family members involved in the businesses. While 40% had women as owners, a majority, 54.7%, had female members actively managing the business. However, female representation at the CEO and senior leadership levels remained limited.

• There was a difference in female participation across regions, with southern businesses reporting the highest proportion of active female participation (97.8%), while those in the Western region reported only 41%.

## Female Participation Across Sectors and Sizes

Not surprisingly, active female participation was higher in service enterprises compared to manufacturing. However, surprisingly, micro, and small enterprises demonstrated more substantial female involvement in managerial roles, while larger enterprises showed lower rates of active female participation.

## Employment and Enterprise Characteristics

Micro enterprises predominantly employed above 50 regular employees and 0-10 contractual employees, while larger enterprises hired between 101-300 regular employees and 11-50 contractual employees. Manufacturing businesses typically employed more regular workers compared to the service sector.

## Business Performance

• The majority of FBs, in FY 2022-23, reported either stable or increasing sales, market share, employment numbers, profitability, and financial indicators – Return on Assets, Return on Equity and profit margin on sales. The dependence on debt and other external sources of funding had increased for a majority of the FBs.

• Service FBs outperformed their manufacturing peers on indicators such as sales, number of people employed, ROE, and profit margin on sales. Manufacturing FBs experienced greater increases on parameters such as market share, profitability, and ROA. Their dependence on debt and external funding was also greater than that for service FBs.

• Of the MSME FBs, medium enterprises outperformed their smaller peers on parameters such as sales, market shares, number of people employed, profitability, ROA, ROE, and profit margin on sales. The performance of the larger enterprises surpassed that of medium enterprises. However, in terms of dependence on debt and external funding, medium enterprises have reported lower such dependence compared to both their smaller and larger peers.

## Business Performance Compared to Competitors

• In the last three years, a majority of the FBs surveyed reported stable or better results on all parameters – sales, market share, number of people employed, profitability, ROA, ROE, and profit margin on sales compared to their competitors in the last three years.

• The performance of manufacturing and service FBs compared to their competitors, as reported by them, was almost similar on parameters including sales, market share, profitability,

• More manufacturing than service enterprises reported increased performance with respect to number of people employed, ROA and ROE , as compared to their competitors over the last three years.

• All MSMEs reported having done better than their competitors on multiple parameters irrespective of their size, over the past three years. More than 50% of even microenterprises reported such an improved performance with regard to sales, market share, own ROA, ROE, profitability and profit margin on sales.

## Business Expectations

• Expectations regarding growth and increased adoption of technology remained optimistic, with more FBs expecting growth and technology adoption to increase. This is even as the FBs expect cost of raw materials and labour to increase in the year ahead.

• A majority of the FBs surveyed reported that they expect to induct professionals in top management in the year ahead or have already inducted professionals.

• In terms of expectations regarding handing over of the business, a majority of the respondents expected their business to be handed over to a current generation family member in the business.

• Even while manufacturing FBs expected cost increases (of both raw materials and labour) more than service FBs, their expectations regarding stable or rapid growth far exceeded that of service FBs. Similarly, the proportion of manufacturing FBs which reported likely adoption of technology surpassed that of service FBs.

• An equal proportion of manufacturing and service professionals reported that they expected to induct professionals in the year ahead.

• Interestingly, irrespective of size, we noted positive sentiments from all MSMEs regarding growth and adoption of technology, even as they expected costs to increase.

## State of Family Values

• The study reveals that a significant portion of surveyed family businesses in India placed high importance on well-defined values and a code of conduct for running the business. They attested to having clear family values, and written vision-mission statements, with a majority of them ensuring alignment of active family members with the mission-vision statement through their active involvement in the same. Thus, we found that there was an emphasis on a strong integration of values across the business.

• Additionally, approximately 76% extended adherence to family values even to non-family managers.

• However, the proportion of FBs which relied on a clear written set of family values was lower, which reaffirms the tradition of oral among FBs.

## Mechanisms for Addressing Family Issues

• Most FBs seem to have informal mechanisms for redressal of family issues.

• We found a relative lack of usage of formal family employment policies, a family will or even a family constitution.

## Family Events in the Last Year

- FBs in the previous year reported the following major events:
- The retirement of an older generation family member involved in business.
- Induction of a next-gen as an owner
- Induction of a next-gen as a manager in the business
- Systematic family meetings
- Establishment of a family council
- It appears that business and management succession have been the attention areas for the surveyed FBs.

## FB Principles

• The FBs surveyed seemed to pay attention to maintaining business control and independence. This included ensuring that the family retain control over business and it be passed on to the next generation. It also meant that selling off the FB to an outsider was frowned upon.

• They also seemed to pay importance to governance principles, stating that they took care that family member qualifications would be the same as non-family employees, and the performance of the former is similar to that of non-family employees.

• FBs followed principles of communication among family members, ensuring various channels to keep themselves abreast with all the goings on in the FB. Such communication also extended to that of family values to the non-family members.

• The FBs also believed in patient capital, and maintaining employee relations by maintaining reliable permanent staff, taking care of them during crises.

- The emphasis was on protecting both socio-emotional and financial wealth

## Business Priorities of FBs

• The top business priorites were : 'Growing the business into new, domestic geographical markets' as a key business priority, followed by "Introducing New products and services" (48%).

• Only about a quarter of the FBs reported adopting digital and/or new technologies as their key priority.

• Investing in Research and Development was reported as a business priority by only 20% of the FBs surveyed.

## Family Priorities

• FBs reported their top family priorities in the next two years as "increasing the involvement of the next generation in the management of the FB", "creating a family council or other such forms of governance" and "inducting professionals" .

• The key priorities did not include planning for retirement or succession or even preparing a will.

• Among the top long-term priorities were "Keeping the Business within the family", "protecting the family reputation", and "keeping the family in the business".

## Key Business Challenges Faced by FBs

- The key business challenges cited were:
- Growing competition.
- Increase in costs of both raw materials and labour
- Shrinking markets due to changes in consumer tastes and preferences
- Redundancy of product/service
- Lack of access to appropriate technology

## Key Family Challenges Faced by FBs

- The key family challenges cited were :
    - o Lack of a clear successor/succession plan for the family business
    - o Lack of a retirement age for the senior gen
    - o Lack of clearly defined and/or written roles and responsibilities for all family managers, including women
    - o Lack of a conflict resolution mechanism within the family business
    - o Lack of a process to train a successor to take over the business
- The business challenges were far more pronounced for service than manufacturing FBs, as reported by the FBs, while a lower proportion of service FBs reported family challenges than manufacturing FBs. MSMEs were the ones hard hit by both business and family challenges, with the proportion of micro and small FBs reporting such challenges surpassing medium and large FBs.

## State of Succession

- A majority of the FBs surveyed cited the ability to lead and manage people as the key trait required for the successor
- Other desirable traits included:
    - o Being good at financial management
    - o Being able to make sense of technological and other changes and adapt to the same
    - o Being good at marketing (48.7%).
- A majority of the senior gen respondents of the FBs surveyed stated that they planned to hand over the business to a current generation family member in the business. Based on intent, the transition to a next-gen member (even one in the business) seems highly distant. Such succession intent was corroborated by next-gen respondents as well.
- A majority of FBs were still undecided about the timing when the succession would take place, while a smaller proportion of FB respondents stated clearly that they did not want to “let go”.

- Of the reasons why the senior gen was unwilling to let go were:
    - o Lack of capability of the next-gen
    - o Lack of interest in the next-gen
    - o Need for financial security for the senior gen
    - o Inability to engage themselves post retirement and handing over the business
    - o Conflict among different members of the next-gen
    - o Non-availability of a next-gen member to run the business.

## State of Digitalization

- A majority of the FBs surveyed responded that they had no digital sales.
- A majority had digital sales between 0 to 20%
- A miniscule proportion reported their online sales were above 50% or reported 100% online sales.
- Such lack of digitalization was seen equally in both manufacturing and service FBs.
- However, paradoxically, and interestingly, it was the SMEs, especially micro FBs which reported switching to online sales compared to even their larger counterparts.
- Of the FBs reporting digital sales, a majority had been doing such sales for more than 5 years. Such proportion was greater for service than manufacturing FBs.
- A majority of the MSMEs have started online sales only 1-2 years back, while a majority of the large FBs have been selling online for more than 5 years.
- The top reasons for switching over to online sales given by the FBs included:
    - o To improve sales
    - o To help them with better market and supply chain linkages
    - o To help them understand consumer behaviour better
    - o Since these required lesser investment
    - o Since their competitors were doing so

- IndiaMart was the most preferred website to conduct online sales, followed by their own websites
- Other preferred e-commerce platforms were: Amazon (1.4%), JioMart (1.1%) and Zomato (0.56%).
- Preferred online marketing tools included : social media marketing, search engine optimization, Ratings from customers, e-mail marketing tools, and conversion optimization tools.
- When probed about their future preferences regarding online sales, a majority of the FBs reported that they would prefer to conduct online sales through both marketplace as well their own platforms. The second largest proportion was of FBs which responded that they would prefer to go independent digitally, and switch 100% to their own platform (website or app).

# 1

# PROFILE OF INDIAN FAMILY BUSINESSES

Period of the survey: **March- July 2023**

**357**
FBs surveyed

**17**
cities covered pan-India.

**137**
micro enterprises

**136**
small enterprises

**66**
medium enterprises

**18**
large enterprises

**132**
manufacturing enterprises

**225**
services enterprises

**26.5**
years is average age of all the FBs in sample

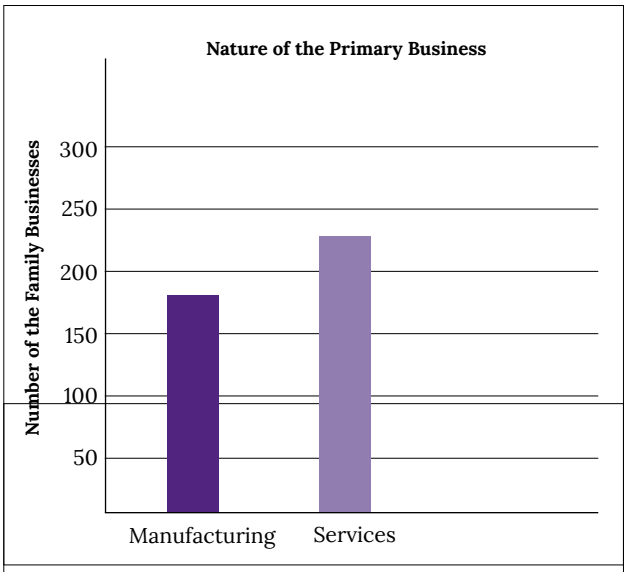
**150**
years oldest company surveyed

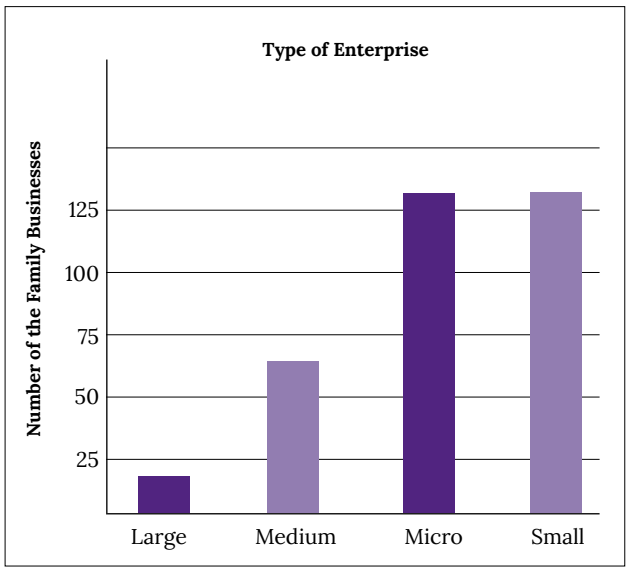
**16**
years youngest company surveyed

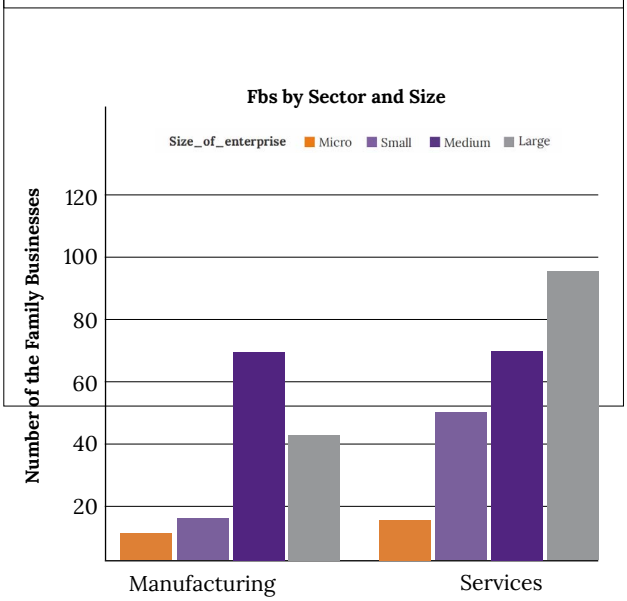
## 1.1 NATURE AND TYPE OF BUSINESSES

- The survey covers 357 family businesses across 17 Indian cities. The study sample is geographically repre sentative with almost 25% of enterprises drawn from each of Eastern, Western, Northern and Southern parts of the country.
- Almost 63% of the enterprises belong to the service sector, while the remaining 37% belong to the manu facturing sector.

- The distribution of Micro, Small, Medium, and Large enterprises are 38%, 38%, 19% and 5% respectively.
- Approximately 83% of the manufacturing enterprises are micro or small, with 51% being actually micro enterprises. This proportion is lower in the service sector at 73%.
- ***Thus, most of the family businesses surveyed continue to remain micro or small enterprises.***
- Service enterprises surveyed are evenly distributed across India, with almost 25% from each of North, South, East, and Western parts. The distribution of manufacturing sector is also roughly uniform, except in the Western part where it is a little sparse (about 14%).

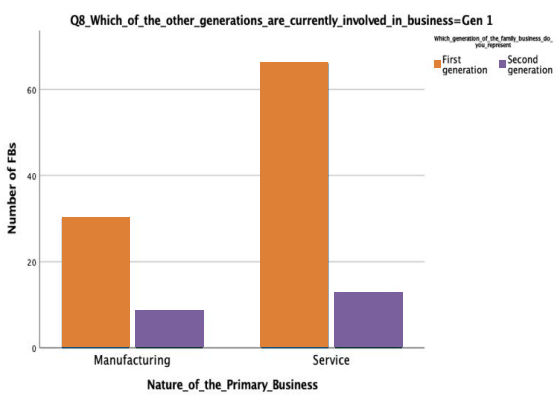



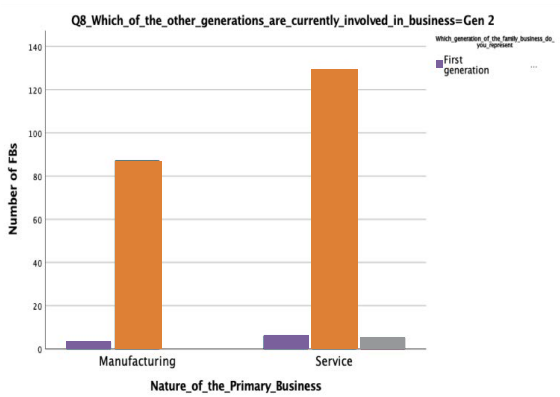
## 1.2 GENERATIONS INVOLVED IN BUSINESS

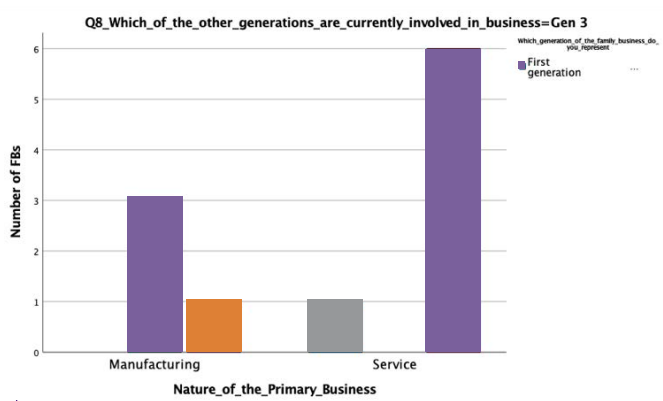
- A business can be regarded as a family business when its core intention is to transfer its vision across generations.
- About 27% (96/357) of the businesses are running with active involvement of the first generation alone.
- The first generation continues to be actively involved in about 30% (106/357) of the businesses.
- Majority of businesses in our survey (239/357 or 70%) have the second generation involved, with at least one second generation member involved.
- 12 out of 357 businesses are third generation business, where at least one member from the third generation is associated with business activities.
- 7 of these FFs have only the third generation involved.

## 1.2.1 NATURE OF ENTERPRISE AND GENERATIONS INVOLVED

- 30 of the 132 manufacturing family businesses (~23%) have only the first generation involved, as against, 66 of 225 service businesses (~29%).
- 74% (98/132) of the family businesses in manufacturing sector have second generation involved, compared to 62.7% (141/225) in the service sector.
- Only 1 of the manufacturing enterprises has transitioned to the third generation, against 11 service enterprises.

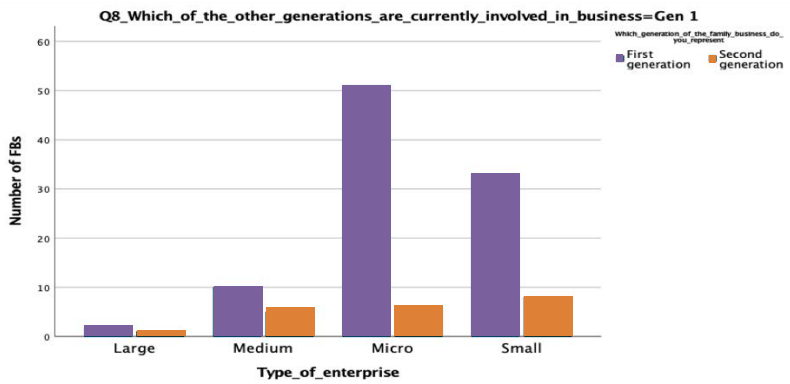


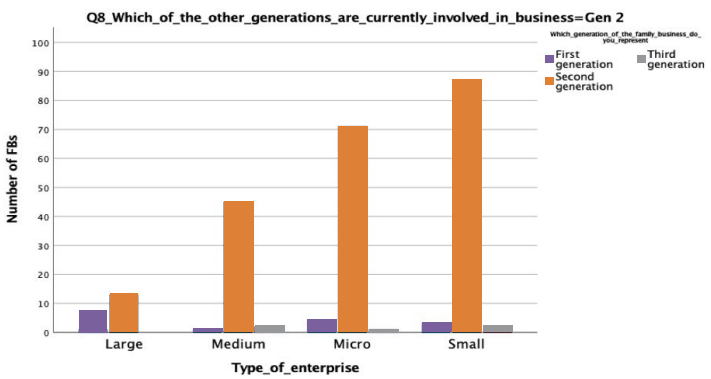



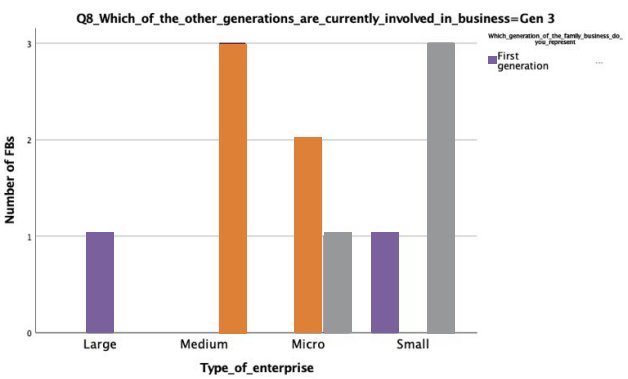



## 1.2.2 GENERATIONAL INVOLVEMENT BY SIZE OF THE BUSINESS

- 55 of the 136 (40%) micro enterprises have active involvement of the first generation, with 51 still having only first-generation involvement. 37 of the 137 small enterprises surveyed (27%), and 16.7% each of medium and large enterprises still continue to have the first generation involved in the business.
- 79/136 (56%) of the micro enterprises have transitioned to the second generation. 95/137 or 69% of small enterprises are second generation businesses, 50/66 or 76% of medium enterprises are second generation, while 15/18 or 83% of large FBs are second-gen businesses.
- 1.5% (2/136) of the micro enterprises are third-gen businesses, while 3.6% (5/137) of small enterprises and 3.6% (5/66) of medium enterprises are third-gen businesses. None of the large businesses are third-gen businesses.
- ***The smaller the size of the enterprise, the larger is the involvement of the founding generation.***

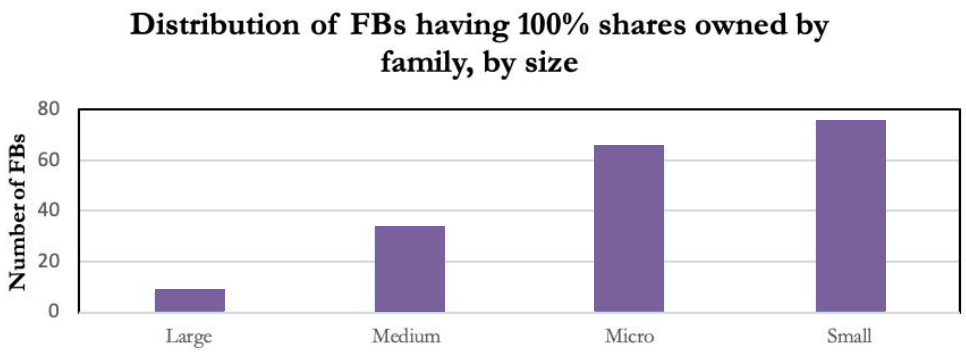


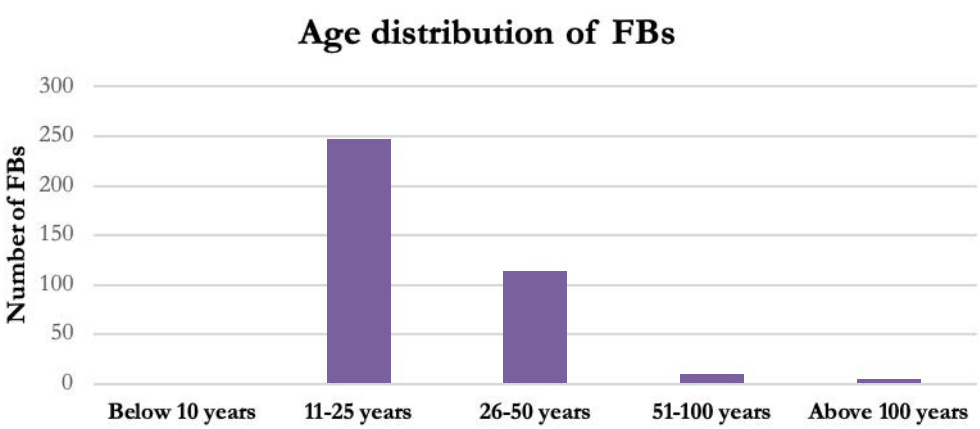
## 1.3 PROPORTION OF SHARES OWNED BY FAMILIES

- 182 of the 357 enterprises (51%) reported a 100% shareholding by the owning family. 65 of these were micro, 75 were small, 34 were medium and 8 were large.
- 226 of the family businesses surveyed (63.3%) hold more than 75% shares.
- All the 357 FBs surveyed reported owning more than 50% of the shares.
- ***Thus, in terms of ownership, it is evident that family businesses in India continue to be closely held.***




## 1.4 AGE OF THE FAMILY BUSINESSES

- None of the family businesses surveyed is below 10 years.
- 67.8 per cent of the family businesses are 25 years or less .
- 29.4% of family businesses are between 26-50 years.
- 8 out of 357 family businesses have survived between 51-100 years, while 2 have lasted above 100 years.
- The average age of existence of FBs is 26.5 years. This corroborates with the data on generations, where we see majority of businesses have transitioned to second generation, given that typically a generation is supposed to span 25 years.

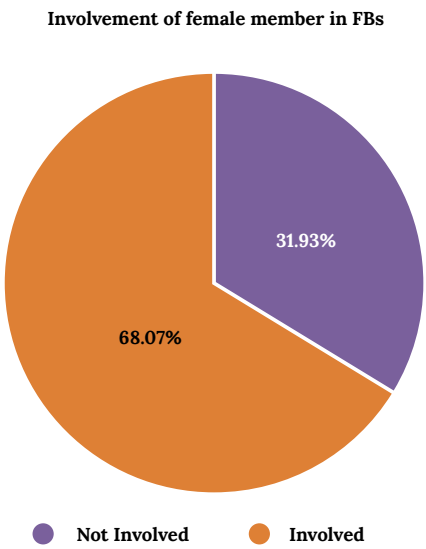


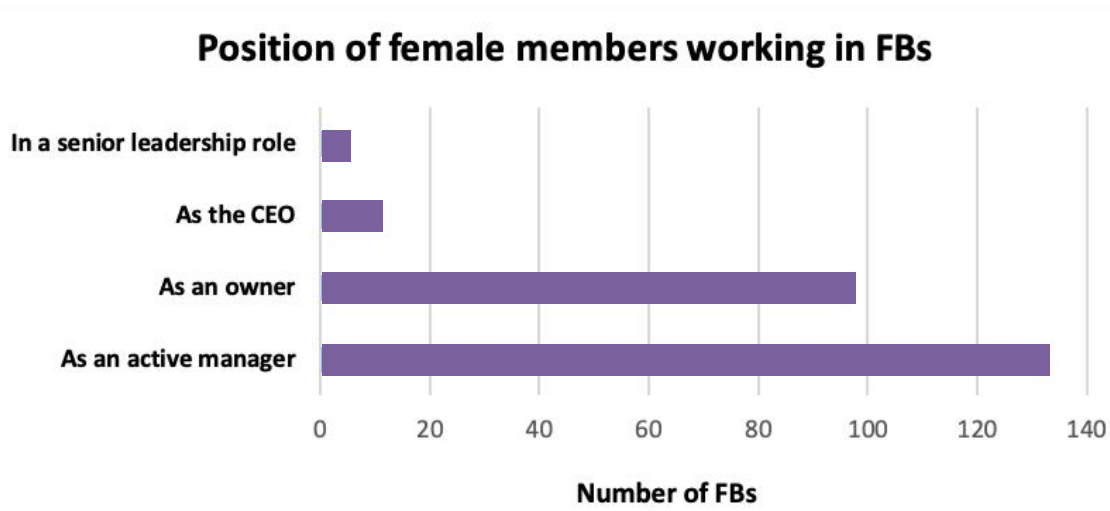
## 1.4.1 AGE OF BUSINESS AND SIZE OF THE BUSINESS

- 8 of the 242 firms, which are less than 25 years, are large.
- Of the firms which have been existing for more than 25 years, only 10 are large firms.
- Of the 115 firms which are more than 25 years old, the majority (40) are micro firms, while 39 are small firms and 26 are medium sized firms.
- ***It appears that even long-lasting firms have not scaled beyond their micro or small size.***

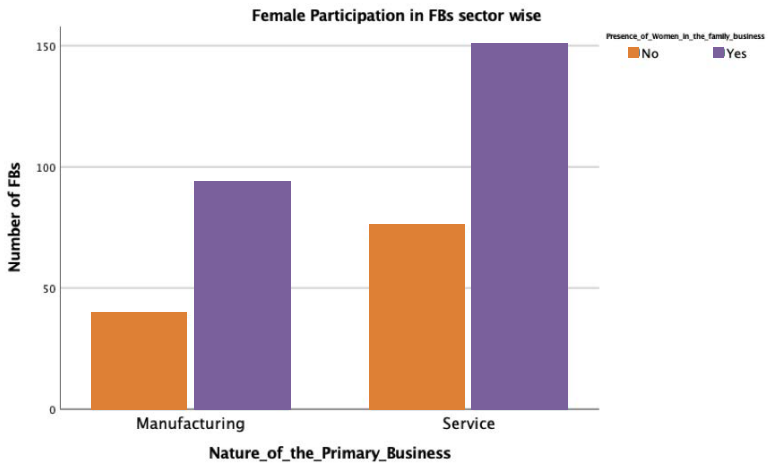
## 1.5 GENDER INCLUSIVITY WITHIN FAMILY BUSINESSES

- Creating opportunities for the female members in family businesses not only adds to the value and vision of the business, but also provides it with unique competitive advantages.
- 68% (243/357) FBs reported involving female family members in their businesses. 97 out of those 243 FBs (~ 40%) have women as the owner of the enterprise, while the majority 54.7% (133/243) have female members involved in the role of an active manager.
- Only 11 FBs reported women as CEOs, and 2 reported female members in a senior leadership role.
- While the sample surveyed seemed to have taken steps towards inclusion of women in family businesses, the proverbial "glass ceiling" still continues to remain in family businesses, with women not occupying commanding roles.



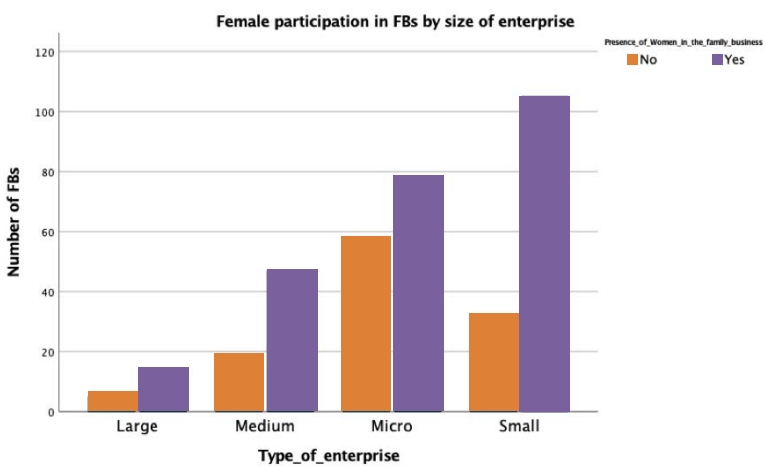



## 1.5.1 FEMALE PARTICIPATION BY SECTOR OF THE FBS




- The lack of female participation in the manufacturing enterprises is telling, where of the 243 FBs involving female members, only 23 % (56/243) report active roles for females, including managers, CEOs, and senior leadership roles . The proportion of active female participation reported, at 37% (90/243), is greater in service enterprises.
- Further, 37 (15%) of the manufacturing FBs had women owners, as compared to 60 (~25%) women owners in service FBs
- Interestingly, 4 of the manufacturing enterprises surveyed have a woman CEO, while the number in service FBs is 7.
- Active female participation, unsurprisingly, is greater among service than manufacturing FBs.

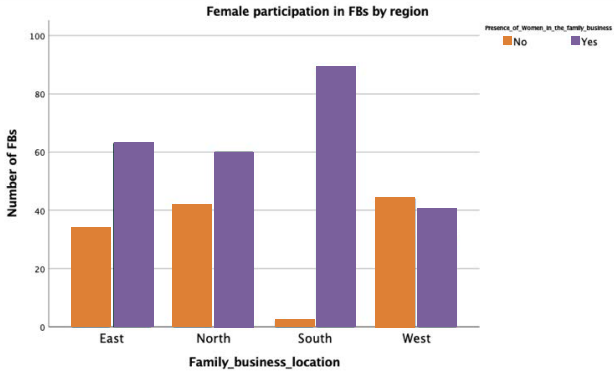
## 1.5.2 FEMALE PARTICIPATION BY SIZE OF ENTERPRISE




- The proportion of females actively involved in the FBs is largest for small enterprises, where 43.2% (105/243) of the total females employed can be seen. This is followed by microenterprises, with 78/243 (32.1%) female managerial participation. The proportion of female managerial participation goes down with the size of the enterprise, with medium and large enterprises accounting for 19% and 3% of active managerial female participation.
- Again, interestingly, there are no large or even medium FBs with a woman "CEO" presence. Only micro and small enterprises reported the presence of a woman CEO, with 6/11 micro and 5/11 small FBs having a woman "CEO".
- Of the 97 FBs which reported a woman owner, 39 were micro enterprises, 42 small FBs, and only 14 and 2 medium and large FBs respectively.
- It appears that larger size is a deterrent to active female participation.

## 1.4.3 FEMALE PARTICIPATION BY REGION

- Interestingly, most of the South FBs (97.8%) reported active female participation, as opposed to FBs located in the West, where the proportion of female participation in FBs is only 41%. The corresponding per centages for FBs in the North and East are 70% and 59% respectively.
- Of the 243 FBs reporting active female participation, the South FBs account for the highest proportion (36.6%) of active female participation. East accounts for 26%, North 24.7% and West accounts for 12.8% of the overall FBs with active female participation.




## 1.5.1 SIZE OF ENTERPRISE AND EMPLOYMENT

- Majority of micro enterprises (approx. 82%) employed above 50 regular and 0-10 contractual employees; small enterprises employed between 11-50 regular and 0-10 contractual employees. Most medium enterprises also employed between 11-50 regular and 0-10 contractual employees. Maximum large enterprises employed between 101-300 regular employees and 11-50 contractual employees.

## 1.5.2 NATURE OF THE ENTERPRISE AND EMPLOYMENT

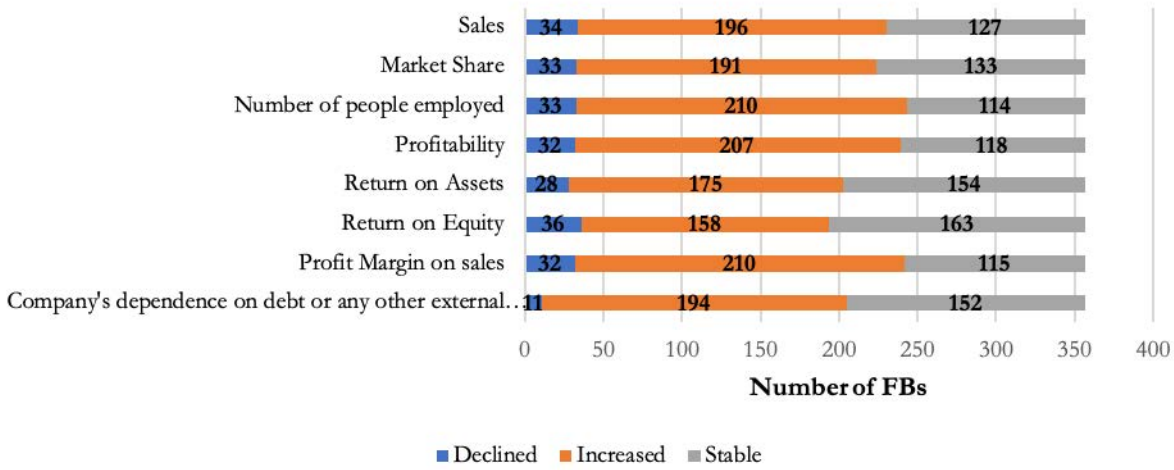
- In manufacturing, most enterprises employed above 50 regular employees and 0-10 contractual employees. Though majority of the service enterprises employed similar number of contractual employees, the number of regular employees were less between 11-50.

# 2

# STATE OF BUSINESS PERFORMANCE

## 2.1 Business Performance in FY 2022-23

### 2.1.1 OVERALL BUSINESS PERFORMANCE

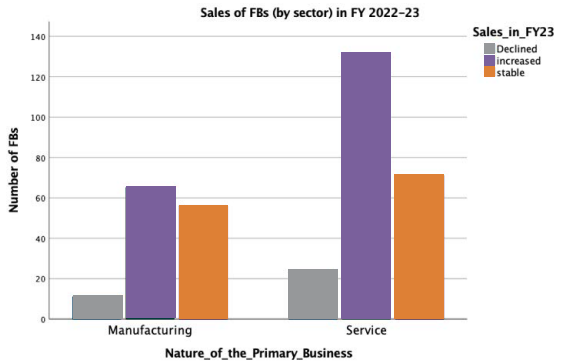


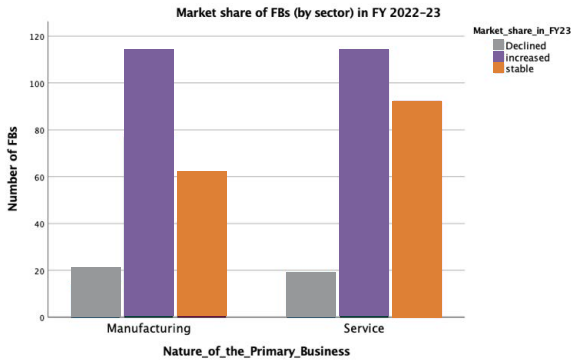

- Of the family businesses surveyed, a large proportion of FBs reported stable (35.6%) and increasing sales (54.9%), while those reporting declining sales was at 9.52%.
- Majority of FBs reported stable or increasing market share. This share was cumulatively at 90.8% (i.e., 37.3% and 53.5% respectively). Only 9.2% reported a decline in market share (42%).
- Of the family businesses surveyed, a majority (58.8%) reported an increase in the number of people employed, while 31.9% reported stable numbers with respect to employment.
- Of the family businesses surveyed, a majority (91%) reported either stable or increasing profitability.
- Of the family businesses surveyed, the proportion of FBs which reported stable or increasing Return on Assets (ROA) was 43.1% and 49%, while those reporting a decline in ROA was 7.8%.
- Of the family businesses surveyed, the proportion of FBs which reported stable or increasing Return on Equity (ROE) was 45.7% and 44.3%, while those reporting a decline in ROE was 10%.
- Of the family businesses surveyed, a majority (91.03%) reported either a stable or increasing profit margin on sales.
- Of the family businesses surveyed, a majority (42.6%) reported stability in their dependence on external sources of funds. 54.3% reported increasing dependence, which might have to do with the capital requirements associated with scaling up.

### 2.1.2 BASED ON SECTOR OF BUSINESS

- Of the total family businesses in the manufacturing and service sectors respectively, the largest proportion of family businesses reported experiencing an increase in sales in FY 2022-23. In the manufacturing sector, almost 49.2% (65/132) of the enterprises reported experiencing an increase in sales, compared to about 58.2% (131/225) of service enterprises. The proportion of manufacturing enterprises reporting decline in sales was 8.3%, compared to 10.2% of service enterprises.

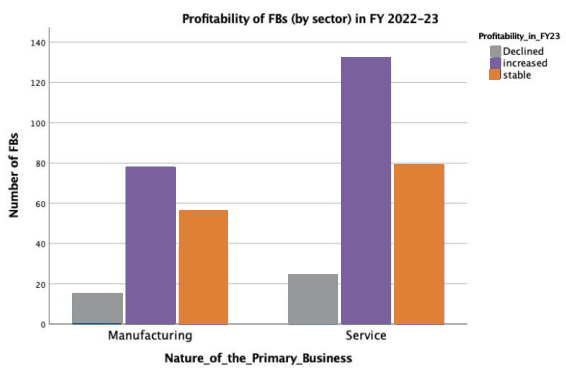
- Of the total family businesses in the manufacturing sector respectively, the largest proportion of family businesses (~ 58.3%) reported experiencing an increase in the market share in FY 2022-23. Simultaneously, almost 50% (114/225) of the service family businesses reported experiencing an increase in the market share. A decline in market share was reported by 8% of service and 10% of manufacturing enterprises respectively.

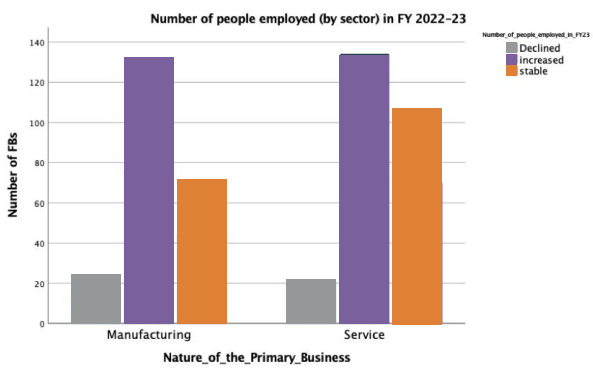



- In terms of profitability, majority of manufacturing and service family businesses reported experiencing a rise in FY 2022-23. Thus, 57.3% service enterprises, and almost 60% of manufacturing enterprises reported experiencing an increase in profitability. Stability in profitability was reported by 35.1% and 29.5% of service and manufacturing enterprises respectively. 11.4% of manufacturing enterprises and 7.6% of service enterprises reported a decline in profitability.

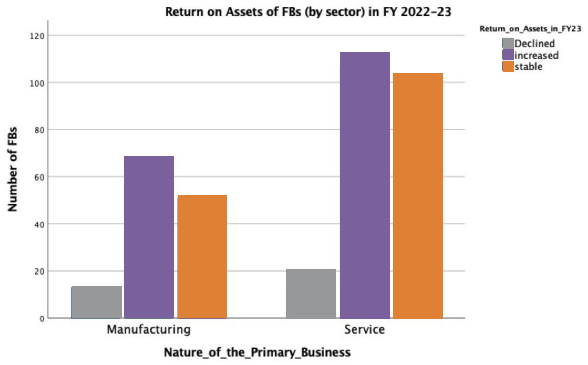
- Almost 60% of service family businesses and 58% of manufacturing enterprises reported increasing the number of people employed within the respective sectors in FY 2022-23. Slightly above 30% of the enterprises in each sector maintained stability in the number of people employed.

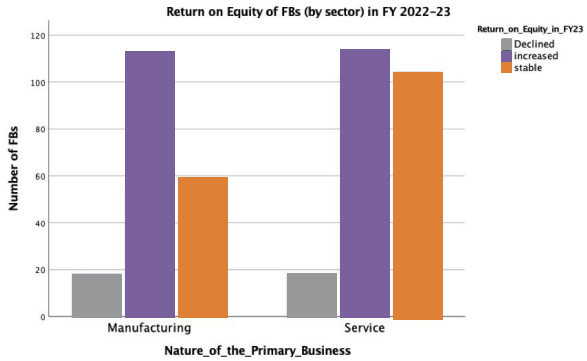


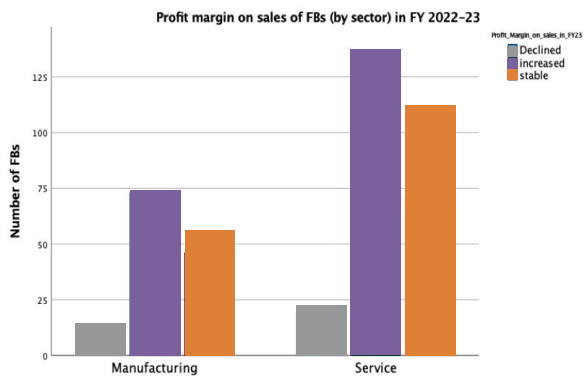

- The proportion of manufacturing family businesses reporting a decline, increase and stability in the Return on Assets is 9.8%, 51.5% and 38.6% respectively. Out of 225 service firms, 6.7% reported experiencing a decline in ROA, while ROA increase was reported by 47.6% of service enterprises. Such ROA was reported as stable for 45.8% of service enterprises. Thus, most FBs – both manufacturing and service reported an increased or stable ROA.

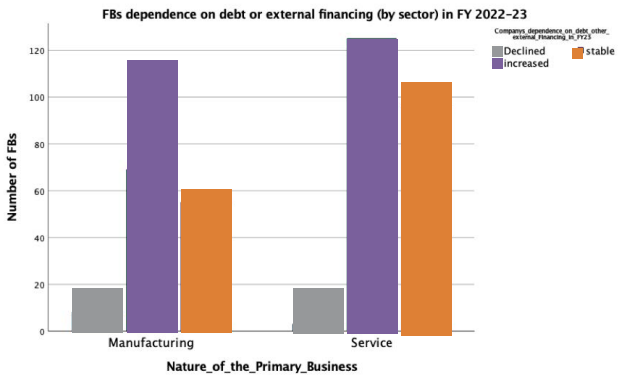
- The decline in Return on Equity (ROE) was similarly much smaller for both manufacturing and service firms , with only 13.6% of manufacturing family businesses and 8% of service enterprises reporting a decline in ROE. Both service and manufacturing firms reported either an increase in ROE, at 45.8% and 41.7% respectively or stable ROE at 46.2% and 44.7% respectively.



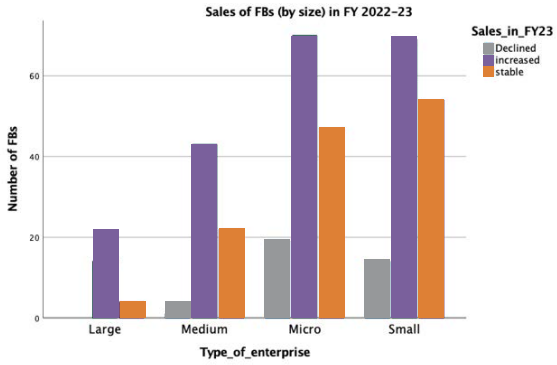

- Most manufacturing (55.3%) and service family businesses (60.9%) reported increased profit margin on sales.
- The family businesses' dependence on debt was stable for 55 (41.6%) manufacturing enterprises, declined for 8(6.06%), and increased for 69 (52.3%). Dependence on debt was stable for 97 (43.1%) service enterprises, declined for 3 (1.3%), and increased for 125 (55%) enterprises. Most FBs reported an increase in the dependence on debt or other external sources of financing their businesses.

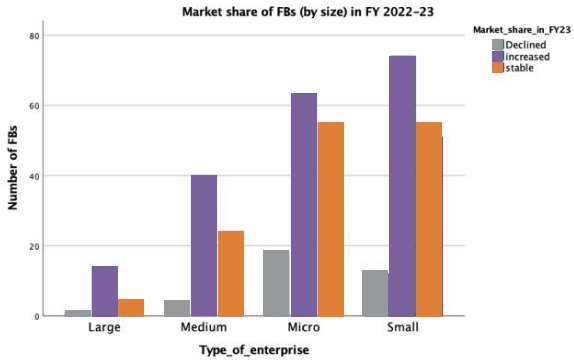



## 2.1.3 BASED ON SIZE OF BUSINESS

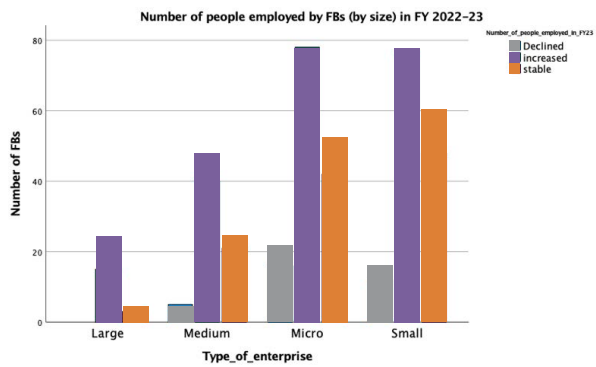
- 90.4% of the total family businesses (irrespective of size) reported experiencing either stable or increasing sales in FY 2022-23. Almost 86% of micro enterprises, 89.7% of small enterprises, and 98% of medium enterprises reported stable or increasing sales. None of the large enterprises reported decline in sales.
- Of the family businesses, surveyed, 51.5% of micro enterprises, 50.4% of small enterprises, 65.2% of medium enterprises and 77.8% of large enterprises reported a clear increase in sales in FY 23.
- Similarly, in terms of market share, 90.7% of the total family businesses (irrespective of size) reported experiencing either stable or increasing market share in FY 23. Almost 86.7% of micro enterprises, 91.2% of small enterprises, 96.9% of medium and 94.4% large enterprises reported stable or increasing sales.
- Of the family businesses surveyed, 46.3% of micro enterprises, 54% of small enterprises, 60.6% of medium enterprises and 77.8% of large enterprises reported a clear increase in market share in FY 2022-23.

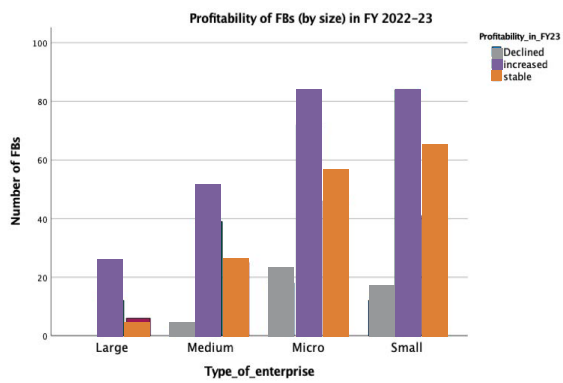



- In terms of number of people employed, almost 59% of the overall family businesses reported an increase in the number of people employed. Large enterprises reported the highest proportion of increase in the number of people employed (at 83.3% of the total large enterprises). 57.3% of micro, 56.2% of small and 61% of medium enterprises also reported increases in the number of people employed.

- Majority of enterprises (91%) of various sizes have reported either stable or rising profitability in FY 2022-23. 86.7% of microenterprises experienced stable or rising profitability. These proportions for small and medium enterprises were 91.2% and 97% respectively. There were no large enterprise reporting a decline in profitability.

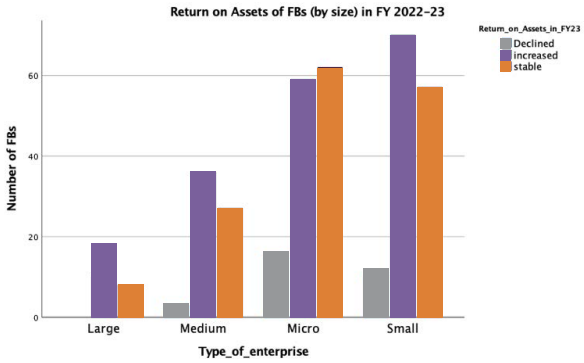


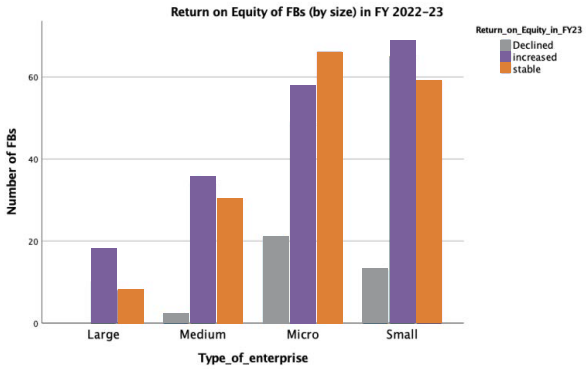




- Most micro (45.5%) enterprises reported a stable return on assets in FY 23. The proportion of microenterprises reporting an increase in ROA was 43.3%, while 51% small enterprises reported increase in ROA. In the case of medium enterprises, the proportion reporting increase in ROA was 54.5%, while 55.6% of large enterprises reported increase in ROA.

- Almost 90% of the family businesses, irrespective of size, reported an increase or stable Return on Equity (ROE). The proportion of micro, small, medium and large enterprises reporting such stability was 48.5%, 43%, 45.4% and 44% respectively, while the proportion of micro, small , medium and large FBs reporting an increase in ROE were 36%, 47.4%, 51.5% and 55.6% respectively.

- As the size of the enterprise increased, we find that the investigated firms reported increase in both ROA and ROE.




- A majority of the enterprises (58.8%) reported an increase in profit margin on sales.
- Large enterprises proportionately reported the maximum increase in profit on sales, followed by medium enterprises. Thus, 77.8% of large and 62.1% of medium enterprises reported an increase in profit margin on sales. The proportion of micro enterprises reporting an increase in profit margins (59.6%) was slightly greater than the proportion of small enterprises (54%) reporting such an increase.
- Only 1.1% of micro, 0.9% of small and 0.6% of medium enterprises reported a decline in profit margins. No cases of such decline were reported by large enterprises.
- For most family businesses, the dependence on external sources of funds remained stable (42.6%) or increased (54.3%) in FY 23. Such dependence was particularly high in the case of large and small enterprises. 52% of micro enterprises, 58.4% of small enterprises, 47% of medium enterprises and 66.7% of large enterprises reported increasing dependence on external sources of funds.

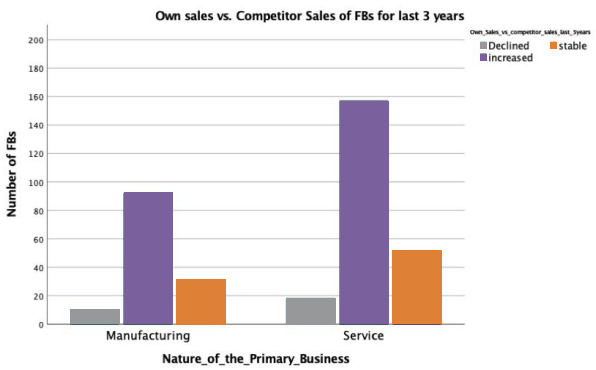
## 2.2 Business Performance compared to competitors in past 3 years

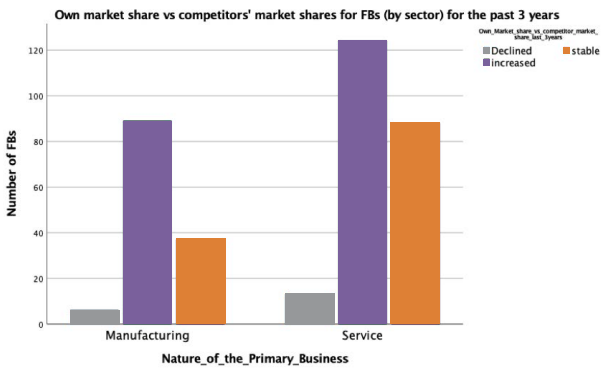
### 2.2.1 OVERALL BUSINESS PERFORMANCE COMPARED TO COMPETITORS


- A majority of the FBs surveyed reported stable or better results on most parameters compared to their competitors in the last three years.

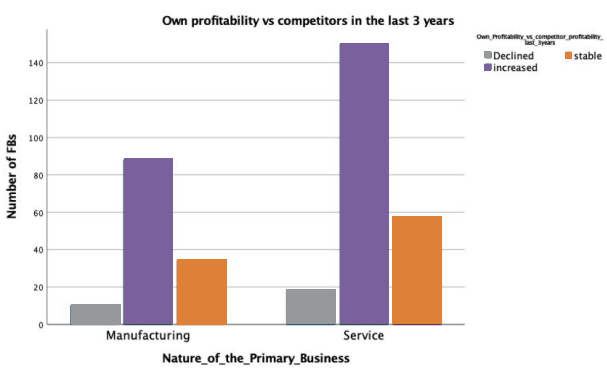
## 2.2.2 BASED ON SECTOR OF BUSINESS

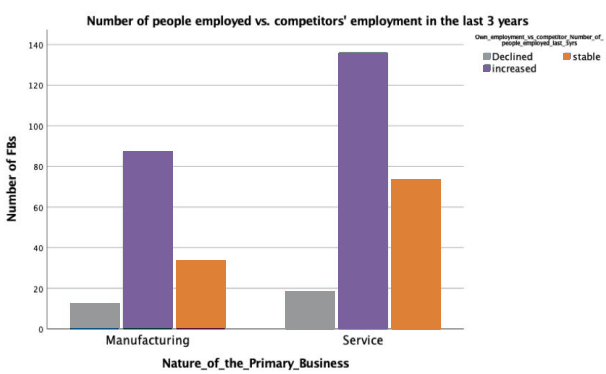
- Of the family businesses, almost 69.7% of manufacturing and 69.8% of service enterprises reported an increase in sales compared to competitors over the previous 3 years. Only 0.6% of manufacturing enterprises and 0.8% of service enterprises reported a decline in sales compared to competitors over the past 3 years.
- Of the family businesses, almost 95.4% of manufacturing and 94.2% of service enterprises reported a stable or increase in market share compared to competitors over the previous 3 years.



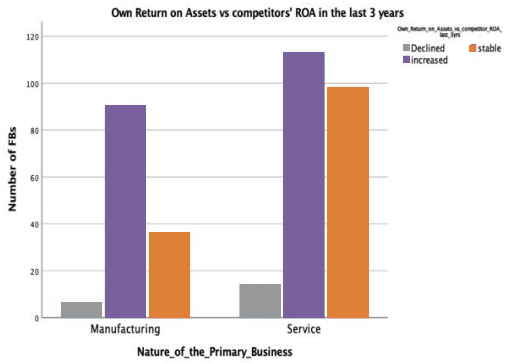

- Of the family businesses, 66% of manufacturing enterprises and 60.4% of service enterprises, reported an increase in the number of people employed compared to competitors over the past 3 years.
- Of the family businesses, 25.8% of manufacturing enterprises reported stable profitability and 66.7% reported an increase in own profitability compared to competitors over the past 3 years. Similar proportion (66.7%) of service enterprises reported an increase in own profitability compared to competitors over the past 3 years, while the proportion of service enterprises which reported stable profitability was approximately 25%.

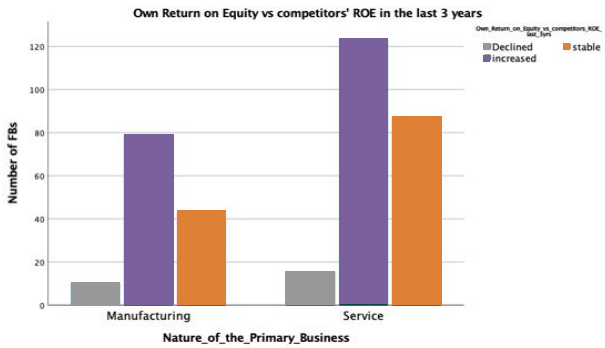


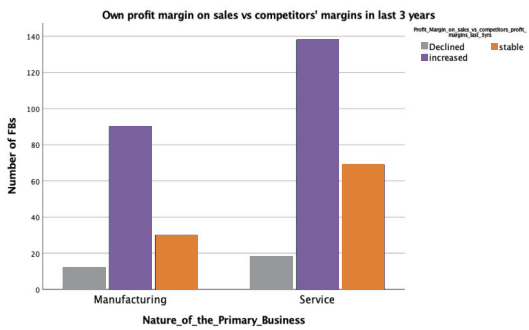

- Of the family businesses surveyed, 27.3% of manufacturing enterprises reported stable and 68.2% reported an increase in return on assets (ROA) compared to competitors over the past 3 years. 50.2% of service enterprises reported an increase in own ROA, while 43.6% reported stable ROA compared to competitors over the past 3 years.

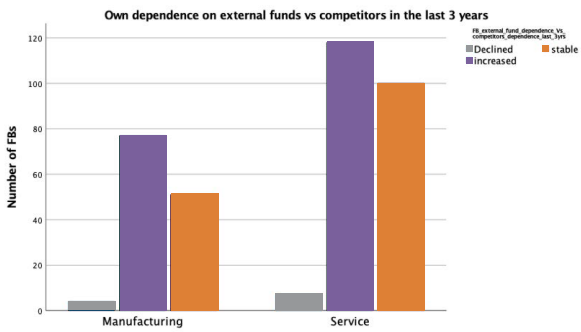
- Of the family businesses, 32.5% of manufacturing enterprises reported stable and about 60% reported an increase in their own return on equity (ROE) compared to competitors over the past 3 years. About 55% of service enterprises reported an increase in own ROE, while 39% reported stable ROE compared to competitors over the past 3 years.
- Most FBs have been able to maintain or even grow their shareholder wealth compared to their competitors over the last 3 years. The ROA is an indicator of business health and our results point to robust health for family businesses.



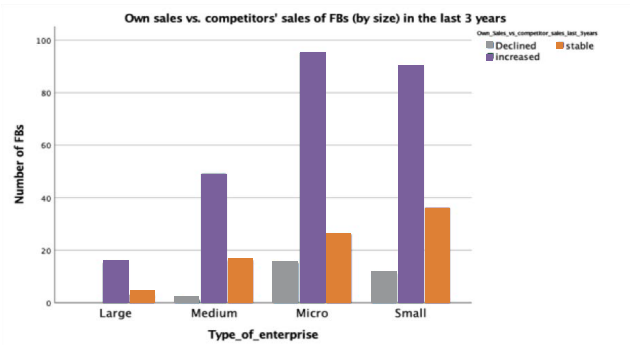

- Of the family businesses, 68.2% of manufacturing enterprises reported an increase in their profit margins on sales compared to competitors over the past 3 years, while this proportion was slightly lower at 61.3% for service enterprises.
- Dependence on external funds increased overall, with 58.3% of manufacturing enterprises and 52.4% of service enterprises reporting increase in dependence on external funds compared to competitors over the
past 3 years.

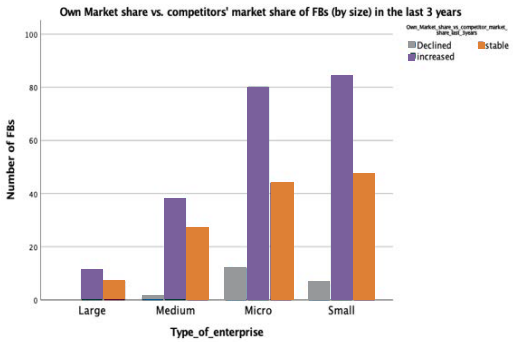


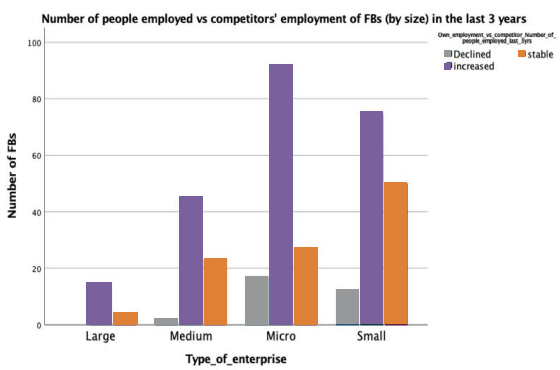
## 2.2.3 BASED ON THE SIZE OF BUSINESS

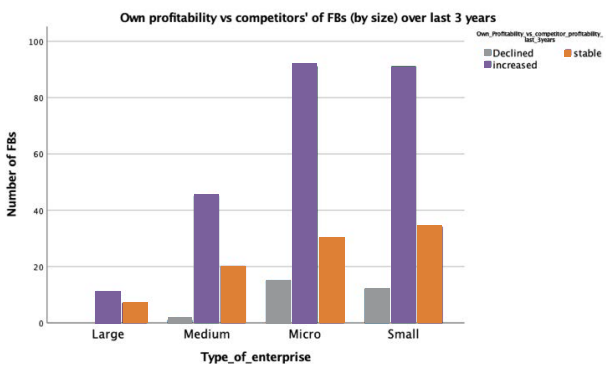
- Of the family businesses, almost 70% of micro enterprises, 65.7% small enterprises, 74.2% medium enterprises and 83.3% of large enterprises, reported an increase in sales compared to competitors over the past 3 years. 19% micro, 26.2% of small, 24.2% medium and 16.7% large enterprises reported stability in sales compared to competitors over the previous 3 years.
- Of the family businesses, 58.8% of micro, 61.3% small, 57.5% medium and 61% of large enterprises, reported an increase in market share compared to competitors over the past 3 years. Irrespective of size of enterprise, 35% reported stable market share compared to competitors over the previous 3 years.



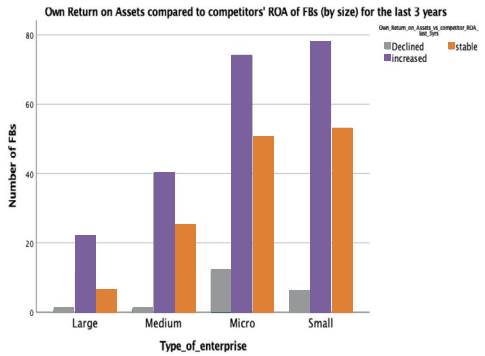

- A greater proportion (61.6%) of MSMEs reported an increase in the number of people employed compared to their competitors over the last 3 years, with 67.6% micro, 54.7% small and 63.6% medium enterprises reporting such an increase. Almost 78% of the large FBs reported an increase in the number of people employed over their competitors in the last three years.
- A comparatively higher proportion of MSMEs also reported an increase in their own profitability compared to their competitors over the last 3 years, with 66.9% micro, 66.4% small and 68.2% medium enterprises reporting such an increase. Majority of large family enterprises (61%) also reported increased profitability compared to that of competitors over the last 3 years.

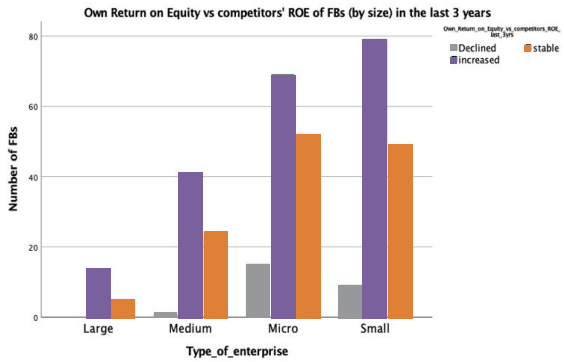



- Following a similar trend, a larger proportion of MSME family enterprises also reported an increase in their own return on assets compared to that of competitors over the last three years, with 54.4% micro, 57% small and 60.6% medium enterprises reporting such an increase. Most large family enterprises (61.1%) also reported increase in ROA compared to that of competitors over the last 3 years.

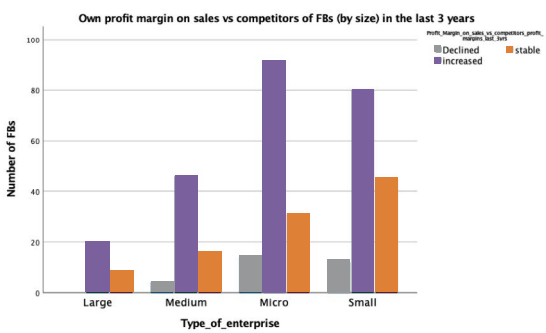
- A majority of the MSME family enterprises surveyed also reported increase in their return on equity (ROE) compared to that of their competitors over the last 3 years, with 50.7% micro, 57.7% small and 62.1% medium enterprises reporting such increase. Similar trends were seen in the case of large FBs, with 72.2% of the large family enterprises reporting an increase in ROE compared to their competitors over the last 3 years.

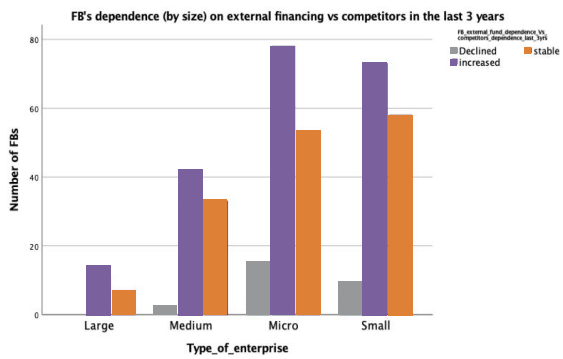



- A majority of family enterprises (228/375 or 64% ), irrespective of their size, reported increase in profitability compared to their competitors over the past 3 years, with 67% micro, 58.4% small, 69.7% medium and 61% large enterprises reporting such an increase.

- A greater proportion of all family enterprises (irrespective of size) reported increase in their own dependence on external sources of funds compared to competitors over the last 3 years. Thus, 57.4% micro, 53.3% small, and 50% medium FBs reported an increased dependence on external funding. 61% large enterprises reported increase in dependence on external funds.



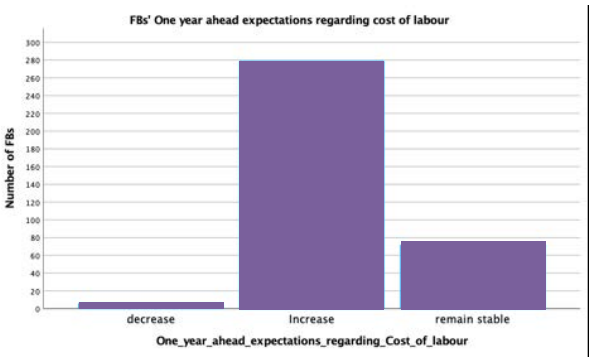



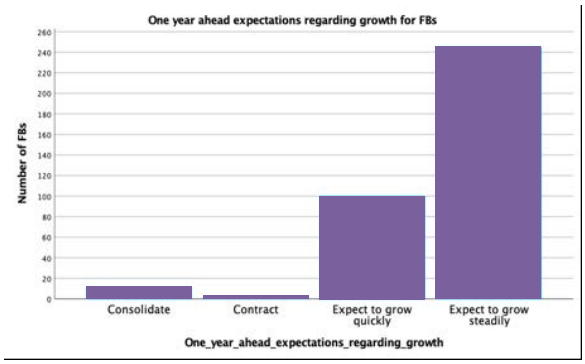
# 3

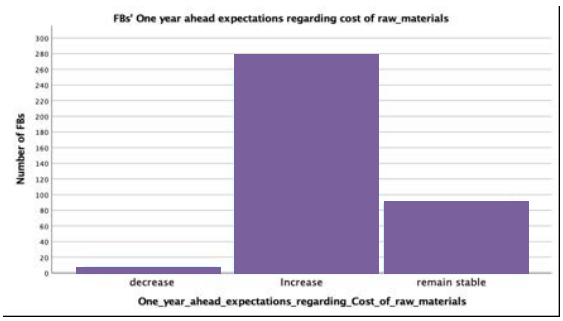
# FAMILY BUSINESS EXPECTATIONS

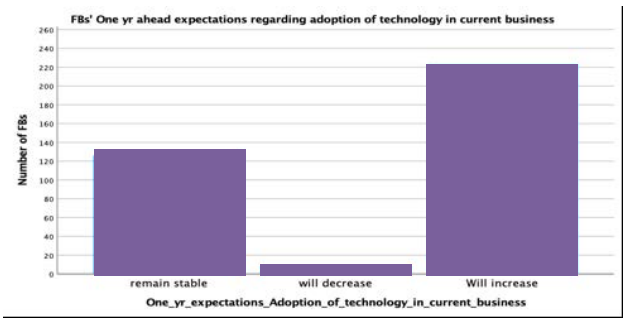
## 3.1 One-Year Ahead Expectations Regarding Business

### 3.1.1 OVERALL BUSINESS EXPECTATIONS



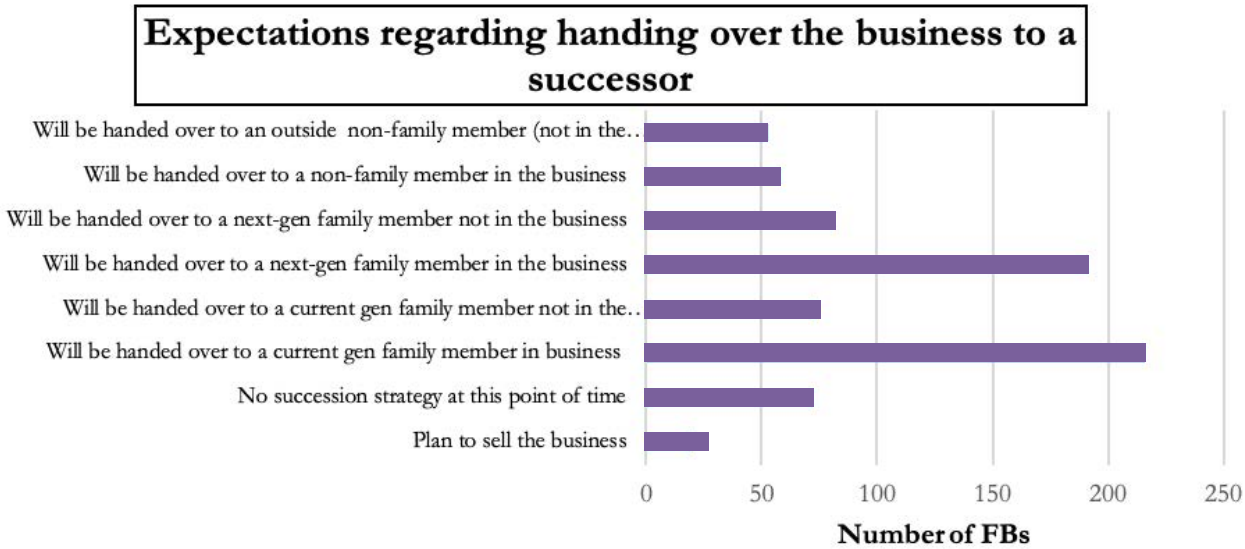




- Majority (68.3%) of the family businesses expected steady growth in their business, while 28% expected rapid growth. Hardly any FB expected growth to contract in the year ahead.
- Almost 73% of the FBs expected the cost of raw materials required for business to increase, while 25% expected such costs to remain stable.
- 78% of the businesses expected increase in the cost of labour in the year ahead, while 20% expected the cost to remain stable. Only 1.6% expected labour costs to decline in the year ahead.
- 62.5% of the family businesses surveyed reported that they expected the adoption of technology in the current business to increase, while 35.3% expected such technology adoption to remain stable
- 47.9% businesses expected to induct professionals in top management, while 33% claimed to already have professionals managing their business. 18.5% of the FBs reported that they

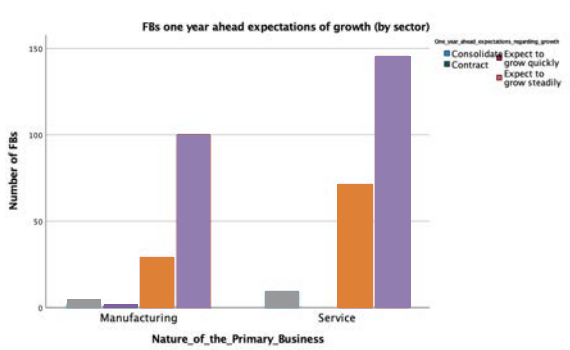

would not change the structure of the current business.

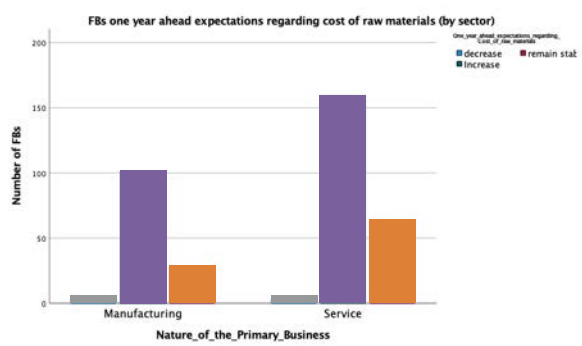
- In terms of expectations regarding handing over of the business, about 61% respondents expected their business to be handed over to a current generation family member in the business. 14.6% stated that business would be handed over to a next generation member in the business, while an equal proportion (14.6%) stated that the business would be handed over to a current generation family member not in the business.

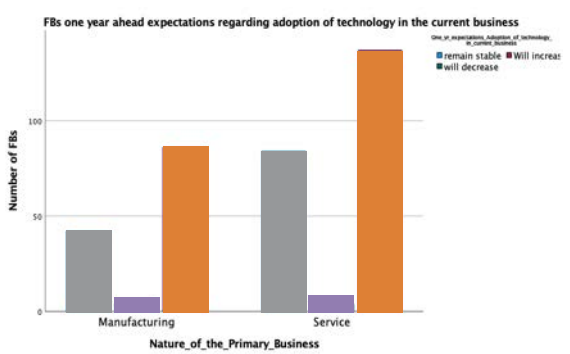


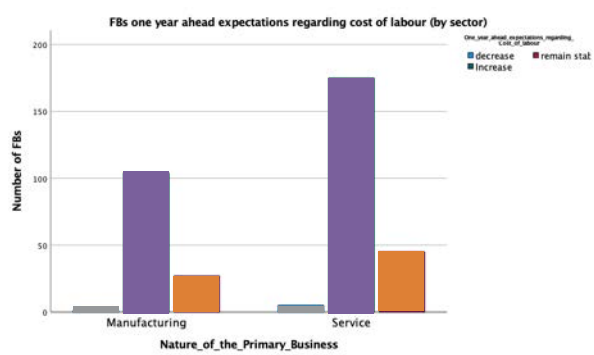

## 3.1.2 EXPECTATIONS BY SECTOR

- 76% manufacturing enterprises, and 64% service sector enterprises expected their current business to grow steadily in the next 12 months. The proportion of manufacturing and service FBs who expected to grow quickly in the next 12 months was 22% and 31.6% respectively.
- 76.5% of manufacturing and 70.7% service sector FBs expected the cost of raw materials required for business to increase in the next 12 months.
- Similar expectations were reported with respect to cost of labour, with 78.8% manufacturing FBs and 77.8% service sector FBs expecting hikes in the cost of labour.



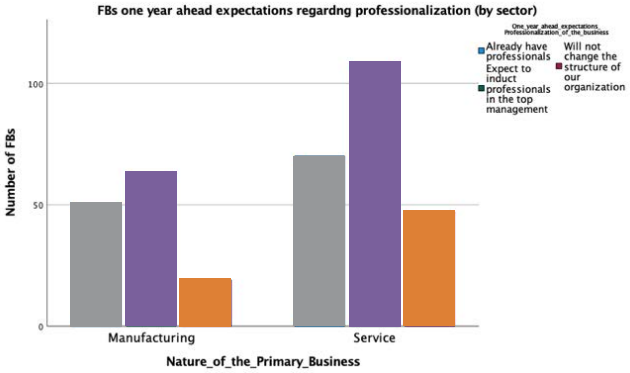



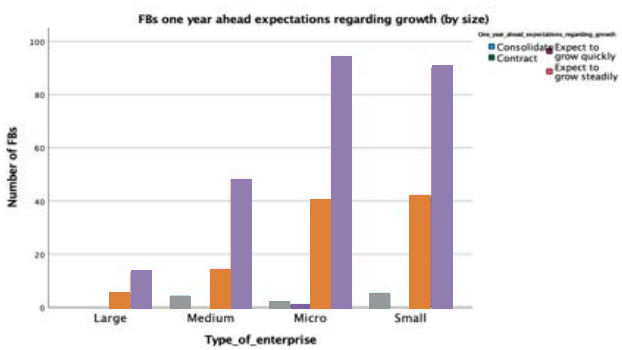
- A higher proportion (65%) of manufacturing firms reported increased expectations regarding adoption of technology in business in the next 12 months, while the proportion of service sector enterprises with such expectations was 60.9%.

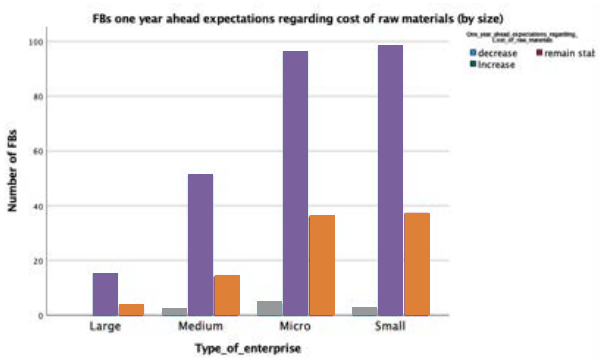
- A similar proportion of both manufacturing (47.7%) and service enterprises (48%) reported expectations regarding inducting professionals in top management in the next 12 months. Around 31% of service FBs and 38% of manufacturing FBs reported having professionals in such positions already.

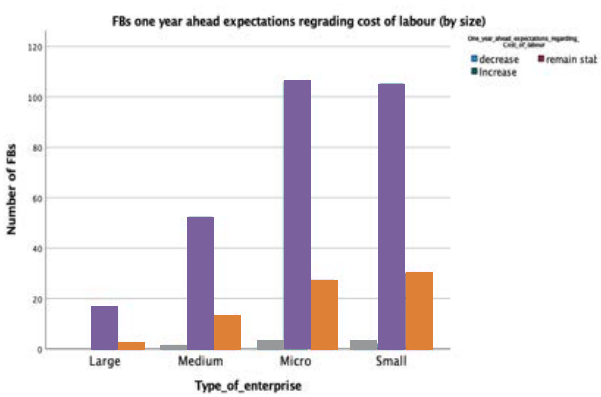


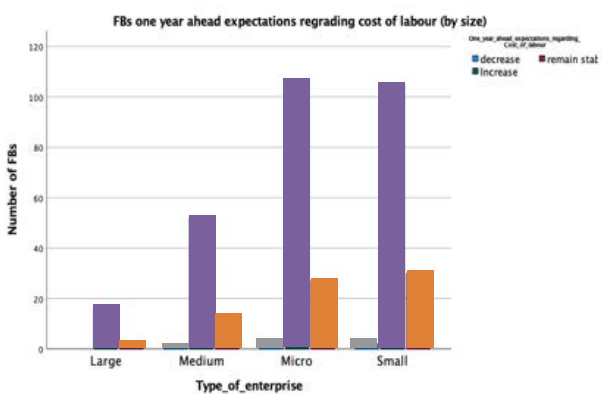
## 3.1.3 EXPECTATIONS BY TYPE OF ENTERPRISE

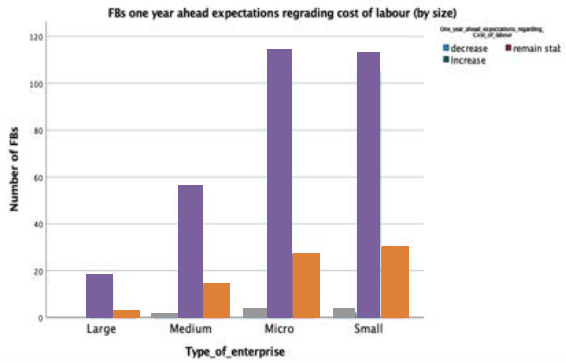
- 69.1% of microenterprises reported expectations of steady growth in the year ahead, while 28.7% expected business to grow rapidly. 65.7% of the small and 72.7% of the medium enterprises reported an expectation of steady growth in the next 12 months. The proportion of small FBs reporting expectation of rapid growth in the year ahead was almost 31%, compared to a proportion of 21% of medium enterprises with similar expectations. For large enterprises, 72% reported expectations of steady growth in the year ahead, while 28% reported expectations of rapid growth.
- Almost 70.6% of the microenterprises reported that they expected cost of raw materials to increase in the year ahead, while this proportion was slightly higher for the small and medium enterprises at 71.5% and 77.3% respectively. For large enterprises, 83% reported expectations of increased cost of raw materials in the year ahead.
- A similar proportion of MSME FBs reported expectations of cost increases for labour in the year ahead, with almost 78% of micro, 77% of small and 79% of medium enterprises reporting that they expected cost of labour to increase in the year ahead. This proportion for large enterprises was at 89%.
- Almost 60% of the MSME FBs reported that they expected to increase their adoption of technology in the current business in the year ahead, with 62.5% of micro, 63% of small and 59% of medium enterprises reporting that they expected to increase their adoption of technology in the current business in the year ahead. Almost 72% of the large enterprises surveyed reported such an expectation regarding the increase in technology adoption.
- 45.6% of micro, 51% small and 42.4% of medium enterprises expected to induct a professional in a top management position in the year ahead. A total of almost 34% of the FBs surveyed reported to already have a professional.

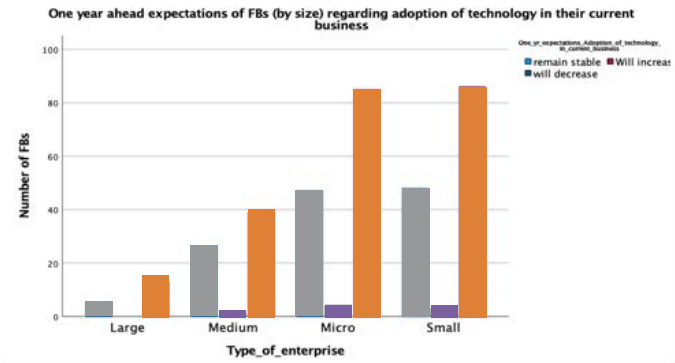


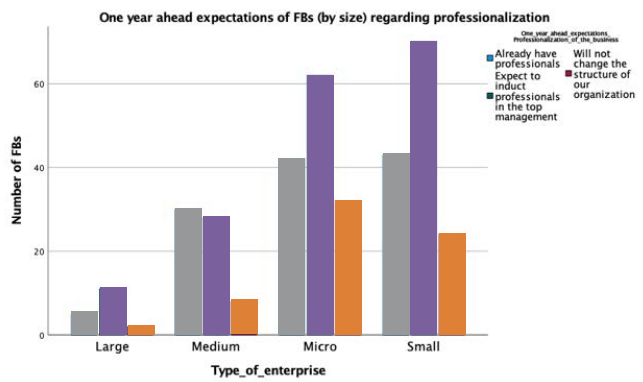




FBs one year ahead expectations regrading cost of labour (by size)
decrease
remain stal
Increase
Number of FBs
Large
Medium
Micro
Small
Type_of_enterprise


One year ahead expectations of FBs (by size) regarding adoption of technology in their current business
remain stable
Will increas
will decrease
Number of FBs
Large
Medium
Micro
Small
Type_of_enterprise

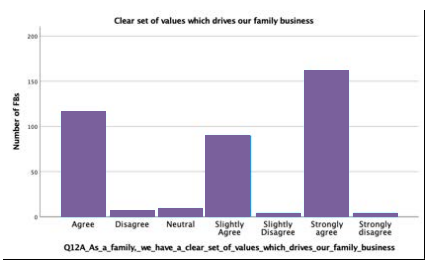

One year ahead expectations of FBs (by size) regarding professionalization
Already have professionals
Will not change the structure of our organization
Expect to induct professionals in the top management
Number of FBs
Large
Medium
Micro
Small
Type_of_enterprise

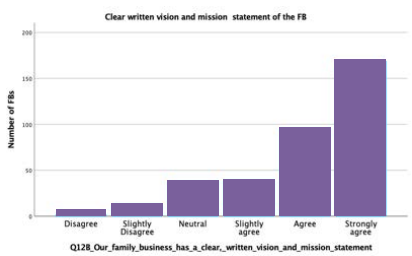
# 4

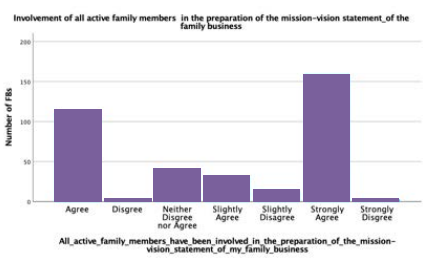
# STATE OF THE FAMILY

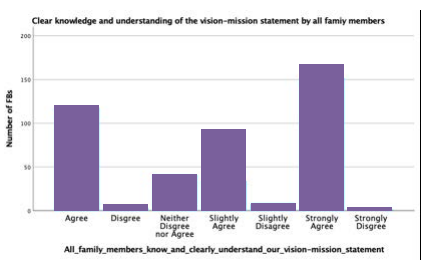
## 4.1 Family Values

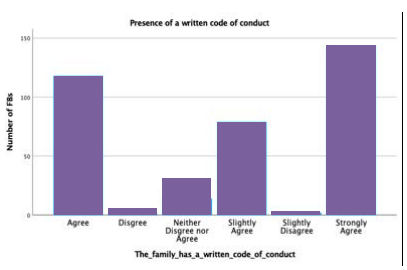
- The family businesses surveyed highly prioritized a clear set of values and code of conduct for running the business. 42% of the FBs surveyed responded by strongly agreeing to the statement that as a family, they had a clear set of values driving the family business, while 31% reported as agreeing to this statement.
- 74% of the family businesses reported the presence of a clear written vision and mission statement driving the family business, with 47.3% strongly agreeing that the FB had a clear written mission-vision statement.
- 76% of the family businesses surveyed reported that the active family members were all involved in the creation of the mission-vision statement, indicating a well-founded alignment of multiple family members. This can be corroborated with the fact that almost 75.7% of the FBs reported a clear understanding of the vision-mission statement.
- While a majority of the FBs (73%) reported a clear set of family values, 62% reported a written set of family values driving the business.
- A higher proportion of FBs (73%) reported a written code of conduct of business at the family level.
- Thus, we can assume that the values driving a family business may be informal and oral and may still drive business, without it being translated into a written code of conduct for carrying out business.
- Similarly, almost 76% of the FBs surveyed reported that non-family managers are expected to adhere to these family values in their work lives.

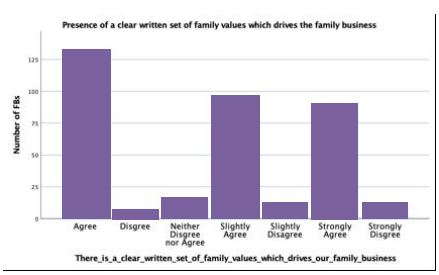


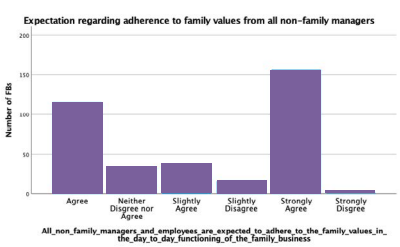



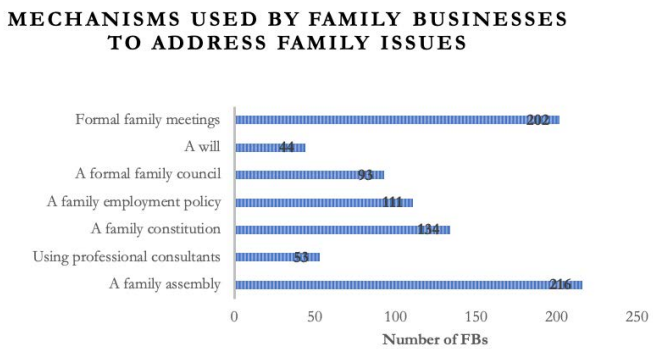



## 4.2 MECHANISMS USED TO ADDRESS FAMILY ISSUES



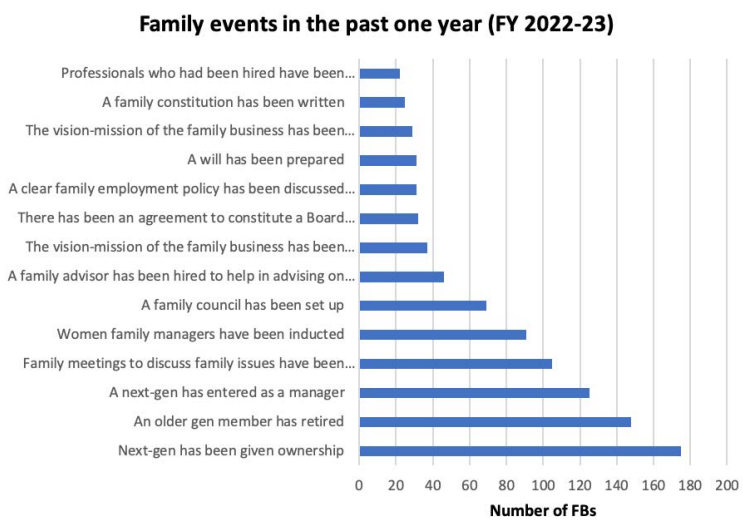

- While addressing family issues in business, majority of businesses reported either the existence of a family assembly (60%), or formal family meetings (56.5%) as mechanisms for the same.
- 111 of the 357 (31%) of the FBs surveyed attested to the presence of a formal family employment policy, while only 12% reported using a will as a means to address family issues.
- A mere 15% attested to the use of professional consultants to resolve family issues.
- Again, only 37.5% of the FBs surveyed spoke about a family constitution as a mechanism for addressing family issues.
- ***FBs seem to have informal mechanisms for redressal of family issues. However, there is need to have formal mechanisms for resolving family issues. FBs would need to pay attention to mechanisms such as family constitutions for ensuring that the FB does not succumb to the three-generation curse.***

## 4.3 EVENTS ON THE FAMILY SIDE OF THE FB IN THE LAST YEAR

- We surveyed FBs for assessing the major events that had occurred on the family side in the past one year, so as to gather insights into changes in the nature, constitution, or operation of business activities.
- 41% of the FBs reported the retirement of an older generation family member involved in business.
- 35% of FBs reported that a next-gen had been inducted as a manager in the business, while an even higher proportion (49%) reported that a next-gen member had been given ownership.
- It appears that business and management succession have been the attention areas for the surveyed FBs.
- Almost 30% of the businesses reported that they have begun to have family meetings systematically in order to discuss family issues, while 19% reported the establishment of a family council.
- 26% of the FBs reported that a woman had been inducted in the business in the last year.
- 7% of the FBs reported that a written constitution has been put into place.
- 6% of the businesses reported that professionals who had been hired previously have been replaced by family members.

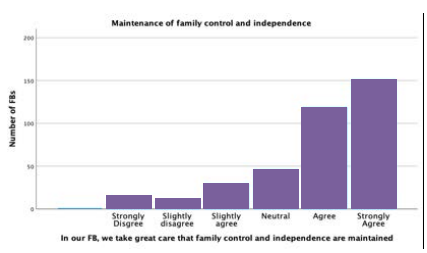
- 8.7% of FBs reported that a will has been prepared in the past year.
- 9% reported that the family had decided to constitute a Board of Directors, unrelated to the extended family.

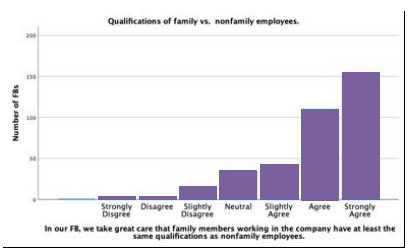
| Family events in the past one year | Frequency | Percentage (%) |
|---|---|---|
| | | |
| Next-gen has been given ownership | 175 | 49.02 |
| An older gen member has retired | 148 | 41.46 |
| A next-gen has entered as a manager | 125 | 35.01 |
| Family meetings to discuss family issues have been undertaken/begun to be undertaken in a systematic manner | 105 | 29.41 |
| Women family managers have been inducted | 91 | 25.49 |
| A family council has been set up | 69 | 19.33 |
| A family advisor has been hired to help in advising on the family side of the business | 46 | 12.89 |
| The vision-mission of the family business has been explicitly discussed | 37 | 10.36 |
| There has been an agreement to constitute a Board of Directors, unrelated to the extended family | 32 | 8.96 |
| A clear family employment policy has been discussed and written down | 31 | 8.68 |
| A will has been prepared | 31 | 8.68 |
| The vision-mission of the family business has been explicitly written down | 29 | 8.12 |
| A family constitution has been written | 25 | 7.00 |
| Professionals who had been hired have been terminated, and family managers have taken over | 22 | 6.16 |

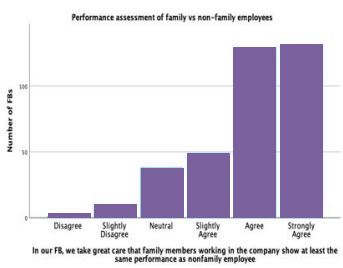


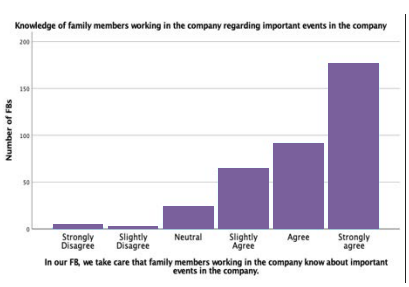
## 4.4 FB PRINCIPLES

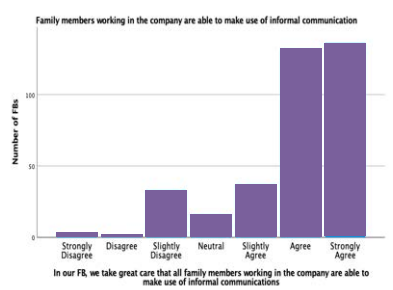
- 75% (269/357)of the firms surveyed (strongly) agreed that the FBs take great care to maintain business control and independence.
- Majority of FBs (74%) (strongly) agreed that as a family business they take great care that family members working in the company possess at least the same qualifications as a non-family employee.
- 260 of the 357 FBs (73%) of the respondents stated that the FB takes great care that the family members working in the company should have the same output performance as a non-family employee. Only 3% disagreed with this statement.
- 75% of the FBs reported that in the FB, they take great care that all family members involved in business are made aware of the important events in business.
- 76% of the FBs reported that they ensure the use of informal communication among family members.
- Again, a majority of the FBs (75%) reported that they take care that the family values are communicated to the employees.
- 75% of the FBs reported that they believe they think in generations (for the long-term), while about 13% disagreed.
- 76% of the FBs reported that in their FB, they took great care to avoid selling the company to non-family members.
- 72% of the FBs reported that in their FB, they took great care to ensure that the company could be passed on to the next generations.
- 74% of the respondents stated the FBs took care that family members working in the company are confidants for the employees. 3% disagreed while 10.6% remained neutral.
- 76.5% of the respondents stated the FBs took care that family members act as role models for the employees.
- 76% of the respondents stated the FBs took care that they maintained reliable permanent staff.
- 75% of the respondents stated the FBs took care that they secure the employees' jobs during crisis.

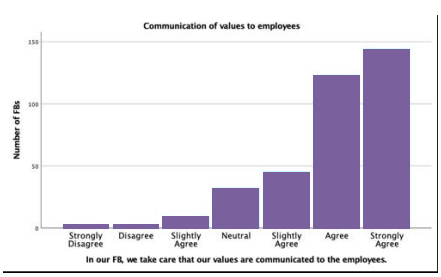


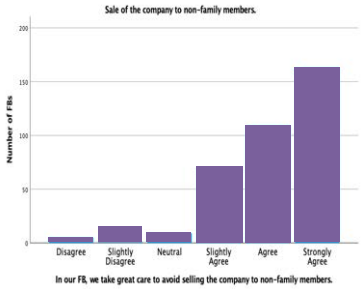



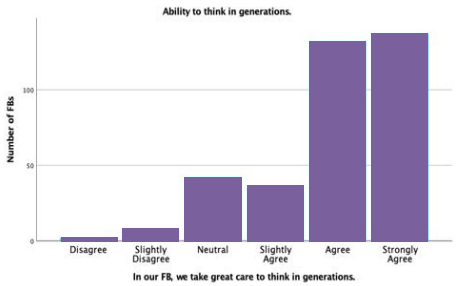



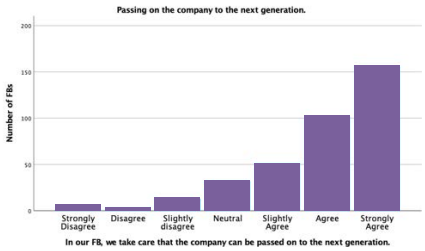



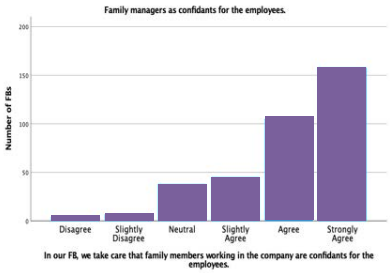



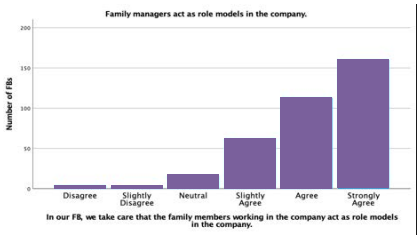



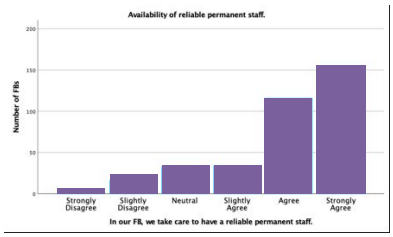


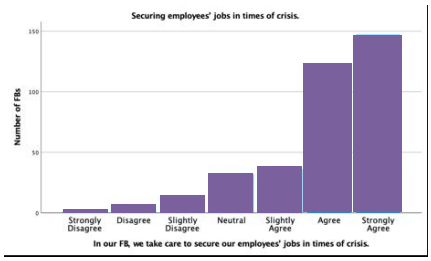



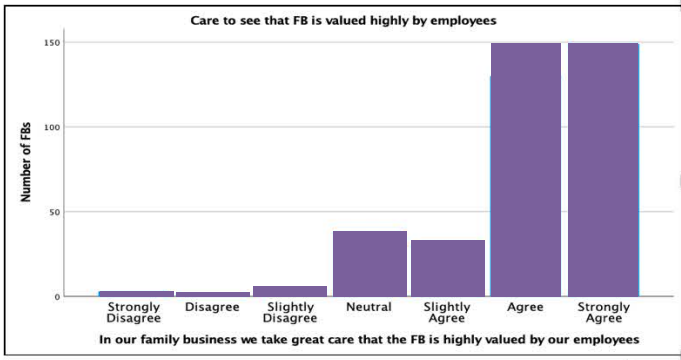



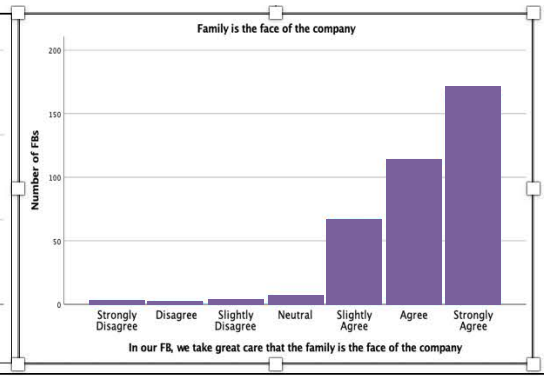



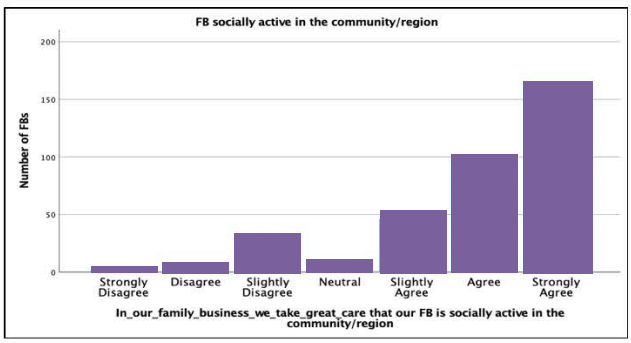



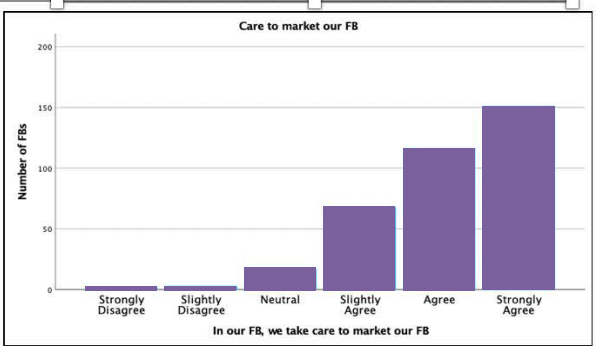

## 4.5 FB PERSPECTIVES ON SOCIO-EMOTIONAL WEALTH AND FINANCIAL WEALTH

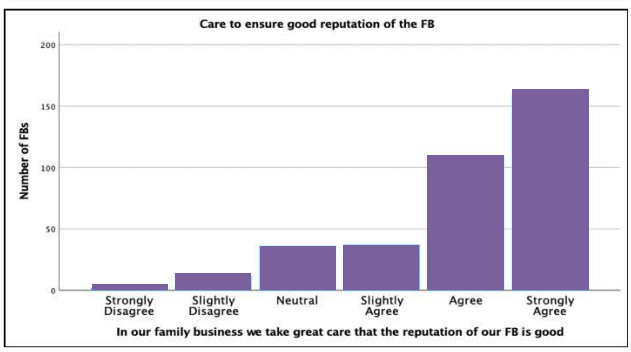
- About 78% of the FBs reported that they take care that the family is the face of the company
- About 73% of the FBs reported that they take care that the family business is socially active in the community/region.
- 78% of the FBs reported that they take care that the family business is valued highly by the employees.
- 76% of the FBs reported that they take care that the family business's reputation is very good.
- 75% of the FBs reported that they take care to always market the family business as such.
- 73% of the FBs reported that they take care to convey the history of their company to employees.
- 75% of the FBs reported that they take care that there is agreement between the family members when it comes to important decisions.
- 75% of the FBs reported that they take care to avoid risky decisions
- 77% of the FBs reported that they take care that banks have as little influence as possible.
- 75% of the FBs reported that they take care that as much profit as possible remains in the company
- 78% of the FBs reported that they take care to keep their cards close to their chest in financial matters

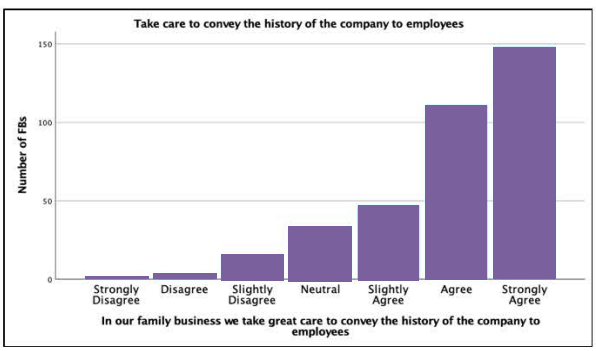

Care to see that FB is valued highly by employees
Number of FBs
150
100
50
0
Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our family business we take great care that the FB is highly valued by our employees

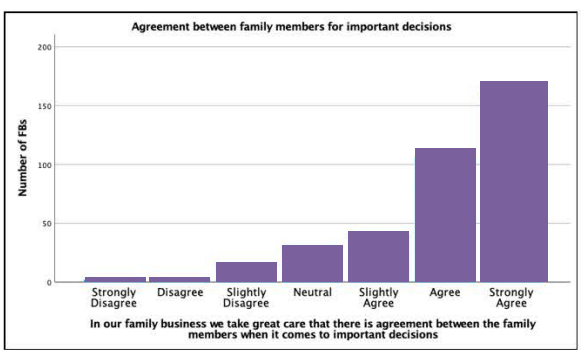

Family is the face of the company
Number of FBs
200
150
100
50
0
Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our FB, we take great care that the family is the face of the company

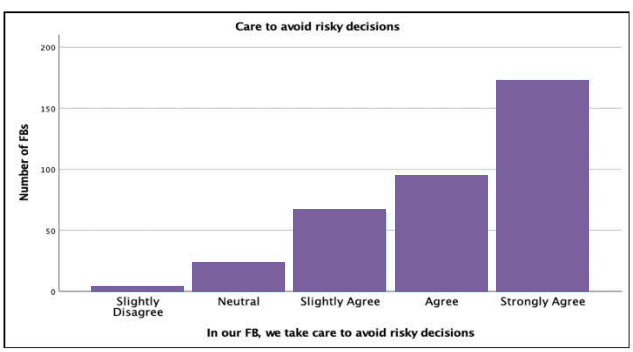

FB socially active in the community/region
Number of FBs
200
150
100
50
0
Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In_our_family_business_we_take_great_care that our FB is socially active in the community/region

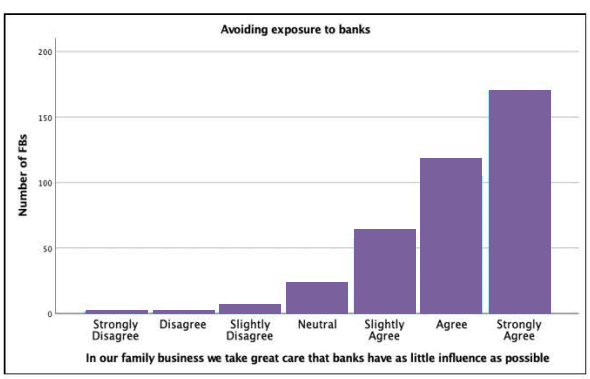

Care to market our FB
Number of FBs
200
150
100
50
0
Strongly Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our FB, we take care to market our FB

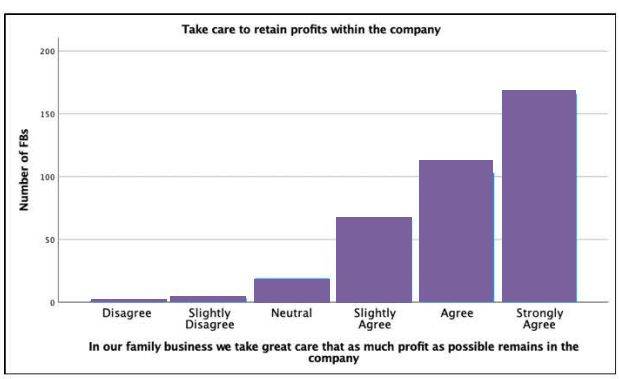

Care to ensure good reputation of the FB
Number of FBs
200
150
100
50
0
Strongly Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our family business we take great care that the reputation of our FB is good

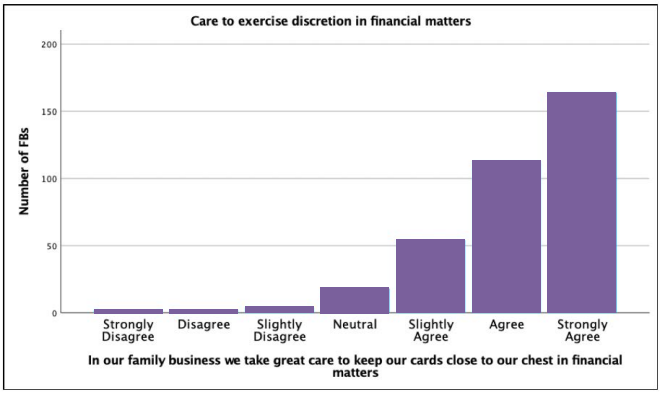

Take care to convey the history of the company to employees
Number of FBs
150
100
50
0
Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our family business we take great care to convey the history of the company to employees


Agreement between family members for important decisions
Number of FBs
200
150
100
50
0
Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our family business we take great care that there is agreement between the family members when it comes to important decisions

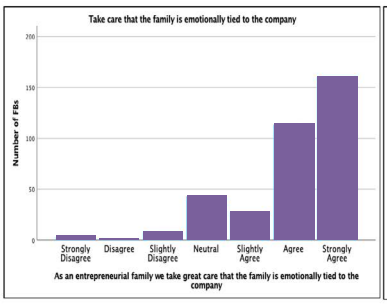

Care to avoid risky decisions
Number of FBs
200
150
100
50
0
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our FB, we take care to avoid risky decisions

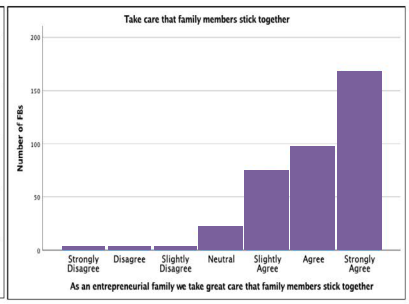

Avoiding exposure to banks
Number of FBs
200
150
100
50
0
Strongly Disagree
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our family business we take great care that banks have as little influence as possible

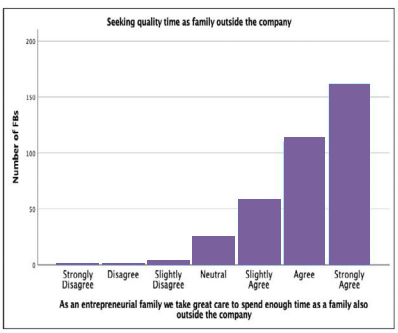

Take care to retain profits within the company
Number of FBs
200
150
100
50
0
Disagree
Slightly Disagree
Neutral
Slightly Agree
Agree
Strongly Agree
In our family business we take great care that as much profit as possible remains in the company

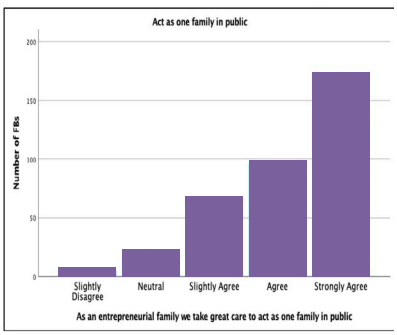



- Further,
- 77% of the FBs reported that as an entrepreneurial family they take great care that the family is emotionally tied to the company.
- 77% of the FBs reported that as an entrepreneurial family they take great care that the family members stick together.
- 76% of the FBs reported that as an entrepreneurial family they take great care that they spend enough time as a family also outside the company
- 75% of the FBs reported that as an entrepreneurial family they take great care that they act as one family in public
- 75% of the FBs reported that as an entrepreneurial family they take great care that all family members working in the company give their best



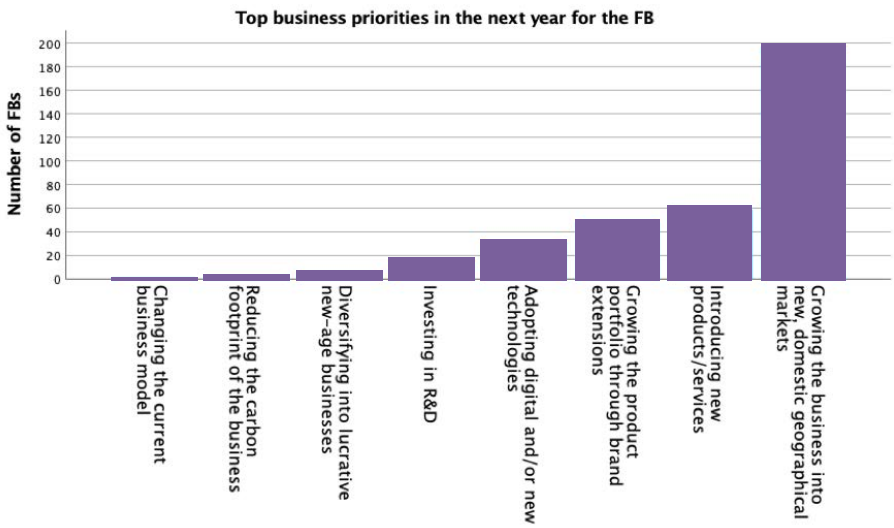




# 5

# FAMILY BUSINESS PRIORITIES IN THE NEXT YEAR

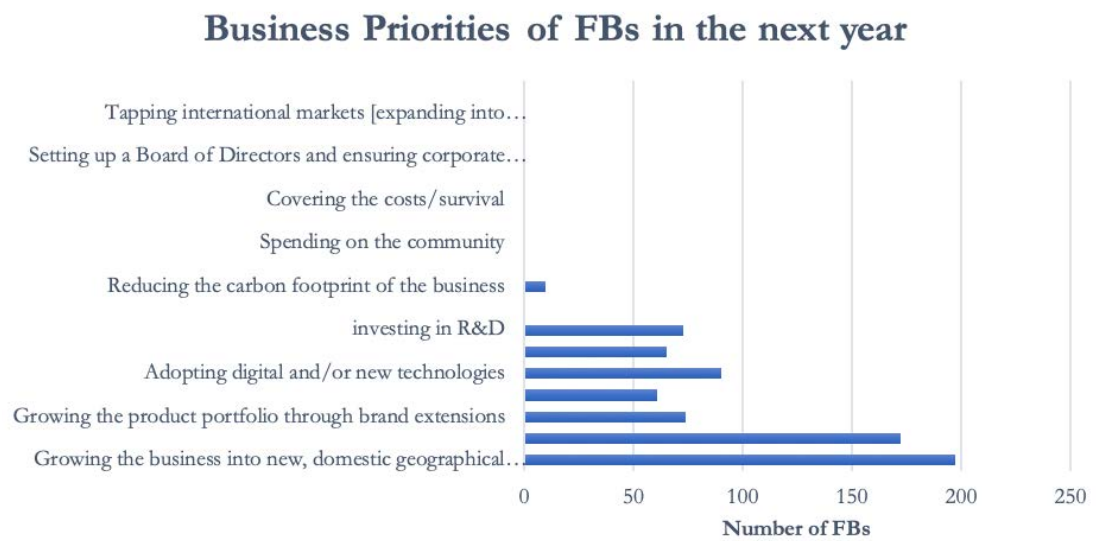
## 5.1 TOP BUSINESS PRIORITIES IN THE NEXT YEAR

- The top ranked business priority in the next year was 'Growing the business into new, domestic geographical markets' (55%), followed by ''introducing new products and services' (16.5%). A number of FBs reported 'Growing the product portfolio through brand extensions' (13.4%) as another top priority. A much smaller proportion of FBs reported 'adopting digital and other new technologies' (8.6%) and 'investing in R&D' (3.9%) as the other important business priorities in the next year.
- 0.84% of the businesses reported reduction of their carbon footprint as their top priority, while 1.1% wants to diversify to lucrative new-age business.
- Covering costs, providing greater employment, reducing carbon footprint or even tapping international markets were not the top ranked short-term business priorities. Nor did the FBs look at changing their current business models.
- Almost negligible or none of the businesses listed them as their priorities.
- Nor did these score highly even within the top 5 business priorities as seen in the figure.



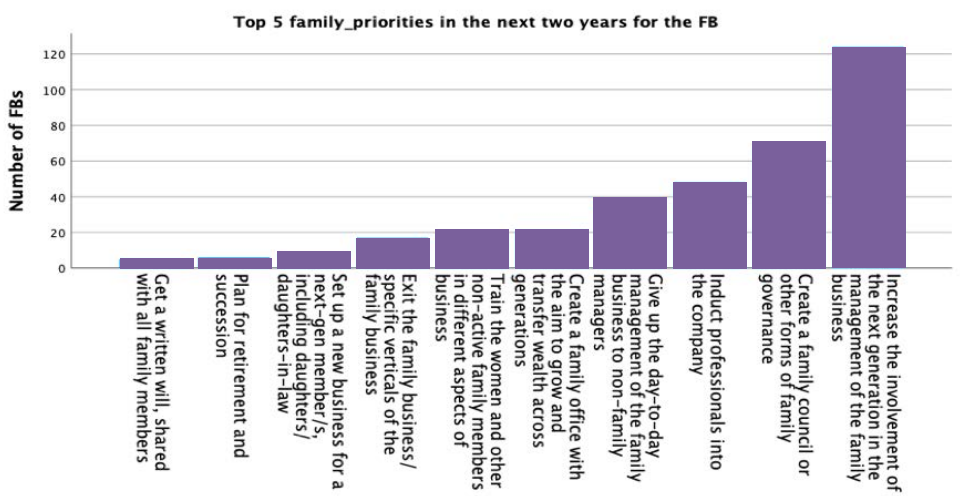

## 5.2 BUSINESS PRIORITIES OF FBS IN THE NEXT YEAR

- 55% of the FBs reported 'Growing the business into new, domestic geographical markets' as a key business priority, followed by "Introducing New products and services" (48%).
- Only about 25% FBs reported adopting digital and/or new technologies as their key priority.
- Investing in Research and Development was reported as a business priority by only 20% of the FBs surveyed.



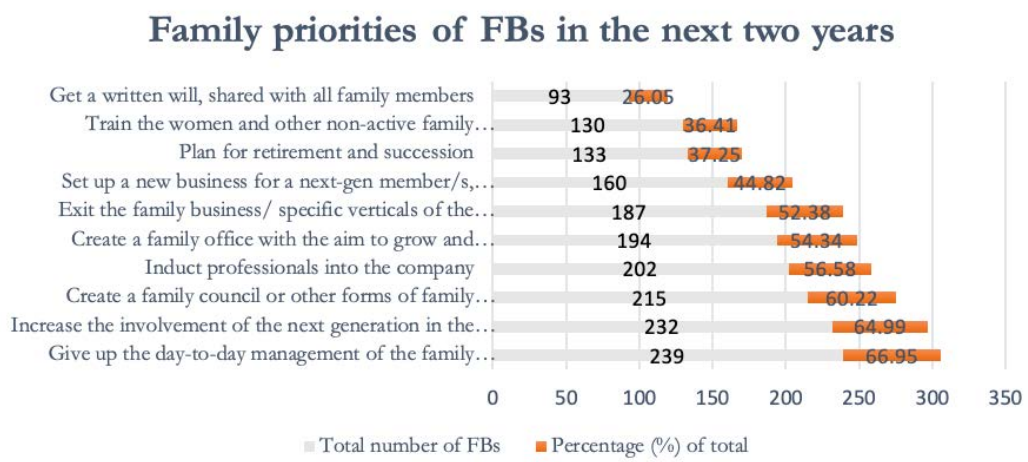

## 5.3 TOP CITED FAMILY PRIORITIES IN THE NEXT TWO YEARS

- A majority of the FBs surveyed (35%) reported "increasing the involvement of the next generation in the management of the FB" as their top family priority in the next two years.
- About 20% of the FBs reported "creating a family council or other such forms of governance" as their key family priority in the next two years.
- About 13% FBs cited "inducting professionals" as the third key priority.
- The other two priorities in the order of their importance were "giving up the day-to-day management of the FB to non-family managers (10.6%) and "Creating a family office with the aim to grow and transfer wealth across generations (5.9%).
- The key priorities did not include planning for retirement or succession or even preparing a will.



## 5.3.1 Top 5 family priorities in the next 2 years reported by FBs

- The top-ranked family priority in the next two years was to 'give up the day-to-day management of the family business to non-family managers', which was reported by 66.9% of the FBs.
- A closely following priority for the next two years, was 'to increase the involvement of the next generation in the management of the family business' as reported by 64.9% of the FBs.
- 60.2% of the FBs listed 'creating a family council or other forms of family governance' as an essential priority over the next two years
- 56.5% businesses reported 'inducting professionals in the company', and 54.3% reported 'creating a family office with the aim to grow and transfer wealth across generations' as their top priorities in the next two years.
- Therefore, the FBs surveyed placed importance on a purpose-lead trusted organization, with structured governance policies and a focus on succession planning to take their business forward.

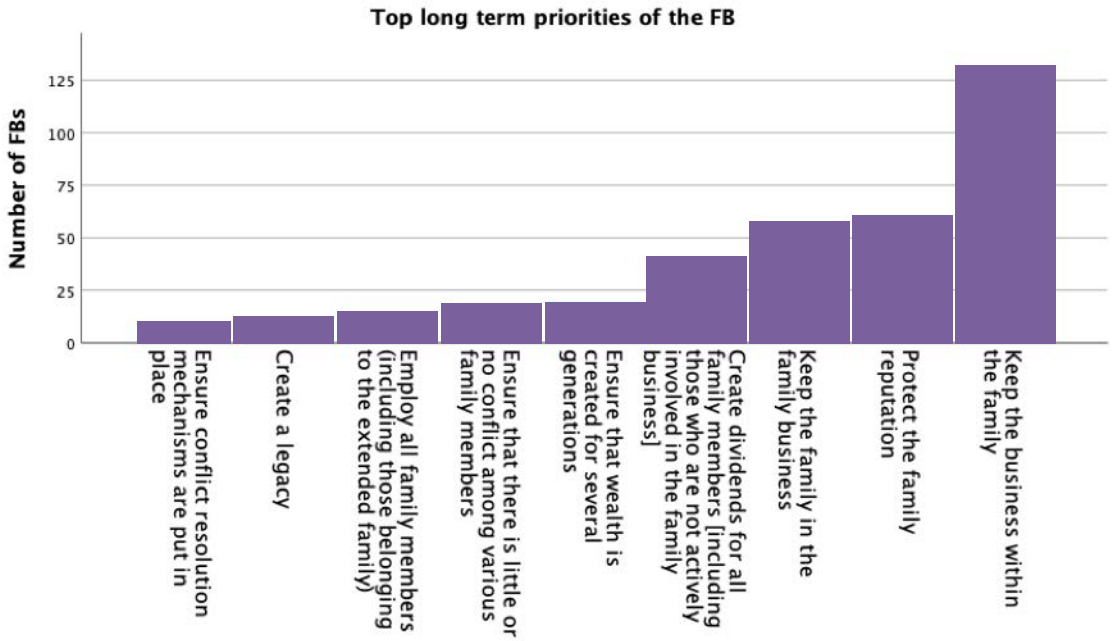



## 5.4 TOP LONG-TERM PRIORITIES OF THE FB

- 36.7% of the FBs surveyed reported "Keeping the Business within the family" as their top long-term priority
- 16.2% of the FBs reported "protecting the family reputation"
- 16% stated "keeping the family in the business' as their top priority in the long-term
- The other two priorities in the order of their importance were "creating dividends for all family members" (10.9%) and to "ensure that wealth is created for several generations" (5.3%).
- 5% of FBs reported 'ensuring little or no conflict amongst family members' as a long-term family

priority, ensuring importance being placed on conflict resolution for smooth running of business, and alignment of opinions. However, only 2.5% of the businesses reported 'ensuring conflict resolution mechanisms are put in place' as their priority.

- Inclusion was another priority amongst some of the FBs, as 3.9% businesses listed 'employing all family members (including those belonging to the extended family)' as their priority.
- 3.4% of the FBs surveyed reported 'creating a legacy' as their priority.

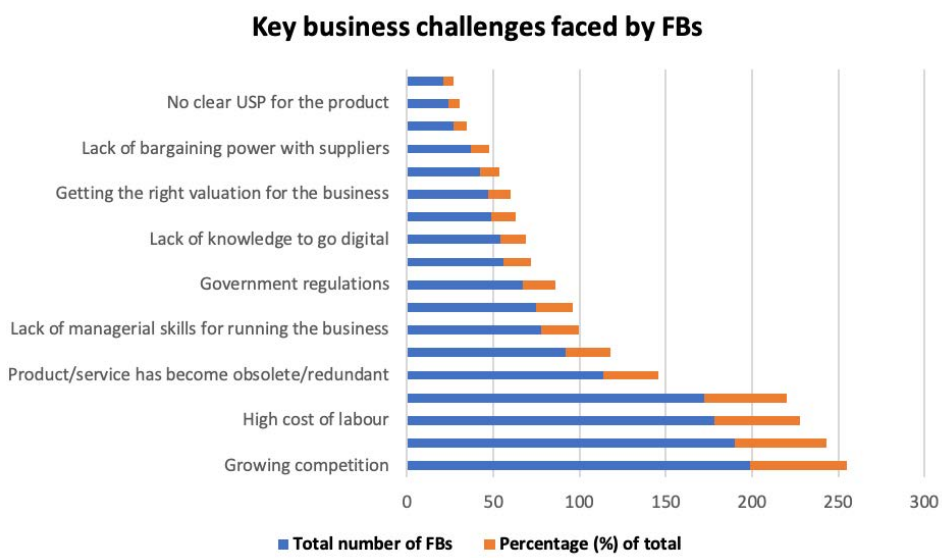


# 6 CHALLENGES FOR FAMILY BUSINESSES

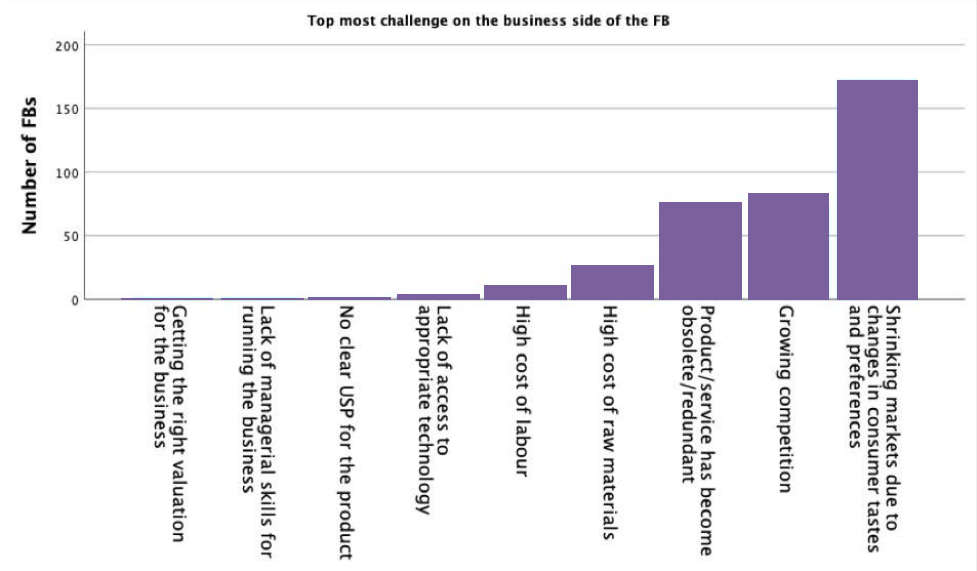
## 6.1 Challenges for family businesses

### 6.1.1 TOP BUSINESS CHALLENGES FACED BY FBS

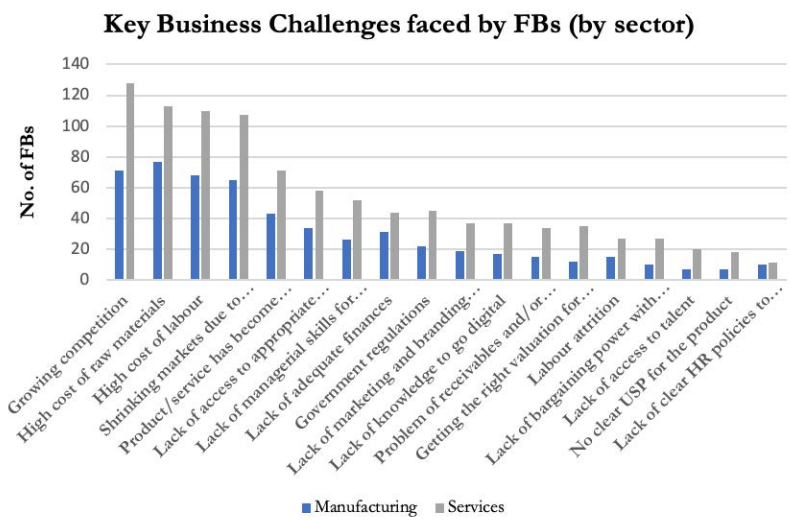
- 55.7% of the FBs surveyed reported growing competition as the foremost challenge faced in business.
- Costs of both raw materials and labour are other top business challenges, with 53.2% reporting business challenges due to rising cost of raw materials and almost 50% reporting increasing cost of labour as hindrance to business.
- 48.1% FBs reported 'shrinking markets due to changes in consumer tastes and preferences' as a key business challenge.
- Redundancy of product/service is another one of the top 5 business challenges, as reported by 32% of FBs.
- 25.7% of FBs reported lack of access to appropriate technology, 21.8% reported lack of managerial skills for running the business and 21% reported lack of adequate finances as challenges faced in business.
- Other business challenges faced were: Government regulations (18.7%), lack of marketing and branding skills (15.7%), lack of knowledge to go digital (15.1%), labour attrition (11%), and problem of receivables and/or bad debts (13.7%).




- However, in terms of top-most challenges, the following were reported:
- 48% of the FBs surveyed listed shrinking markets as the foremost challenge faced in business.
- Nearly 21% cited growing competition as a key business challenge.
- Another concern was that of redundancy of products and services, reported by another 20% of the FBs surveyed

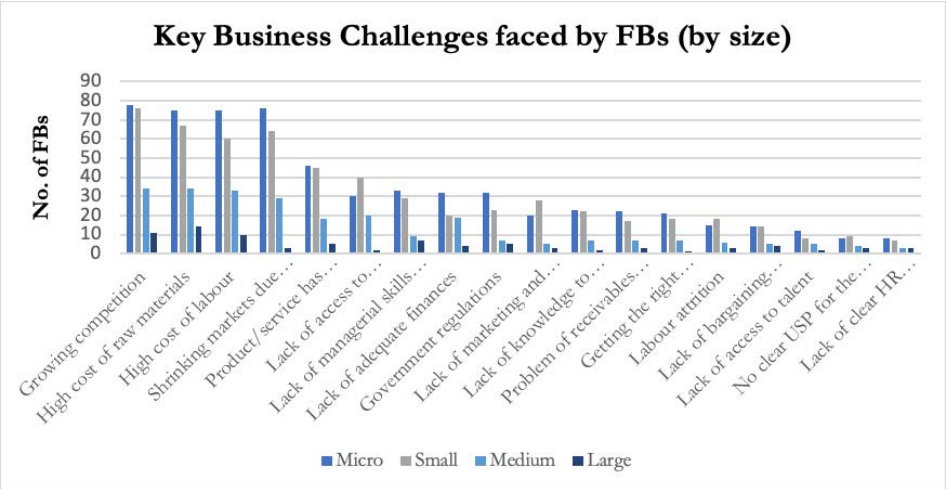



## 6.1.2 BUSINESS CHALLENGES BASED ON SECTOR OF ENTERPRISE




- Manufacturing FBs reported the high cost of raw materials as the top challenge, with 58% FBs citing that as a business challenge overall. This was followed by concerns of growing competition reported by 53% manufacturing firms.
- Growing competition was the top challenge for service FBs, with 57% FBs reporting it as the biggest challenge. The second biggest challenge reported by 50% of FBs was the high cost of raw materials.
- Shrinking markets due to change in consumer tastes and preferences, and high costs of labour, were reported as other big challenges by both types of enterprises, but were a greater challenge for more manufacturing than services enterprises.

## 6.1.3 Business Challenges based on Size of enterprise

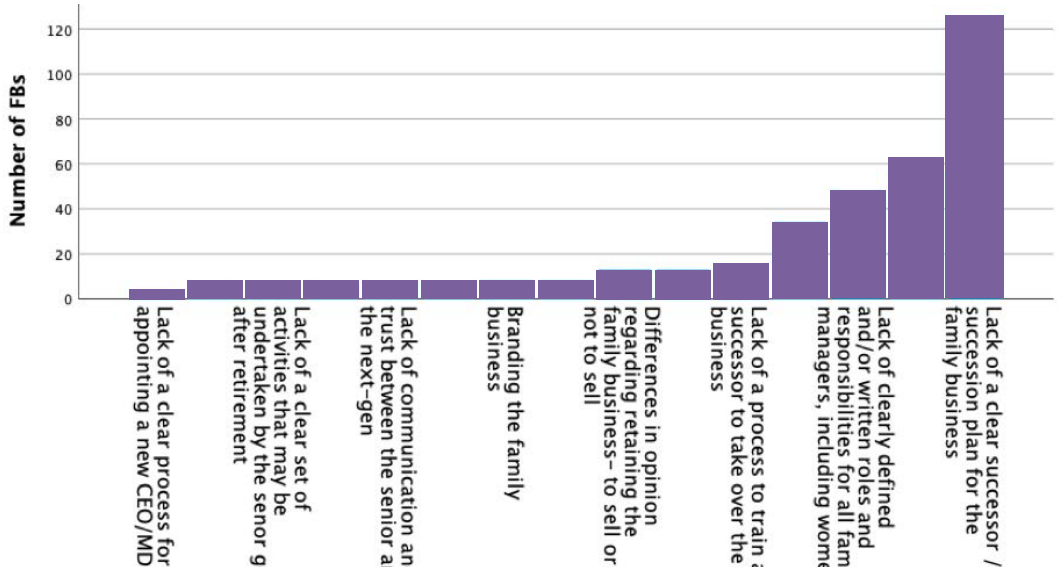



- Growing competition was the top challenge for all MSME FBs, with 57.3% micro, 55.4% small and 51.5% medium enterprises reporting it as their key business challenge. It was also reported as a key challenge by 16.6% of large FBs. However, majority (21.2%) of large FBs reported high cost of raw materials as their biggest challenge.
- High cost of raw materials, rising cost of labour and shrinking markets were placed almost equally as top business challenges by micro enterprises, with about 55% FBs attesting to these challenges. These were also reported as crucial challenges for small and medium FBs.
- Though 21% and 15% of large enterprises reported rising costs of raw materials and labour as important business challenges respectively, only 4.5% considered shrinkage of markets as a hindrance. Lack of managerial skills for running the business posed to be a bigger challenge for them as reported by almost 11% of large FBs.

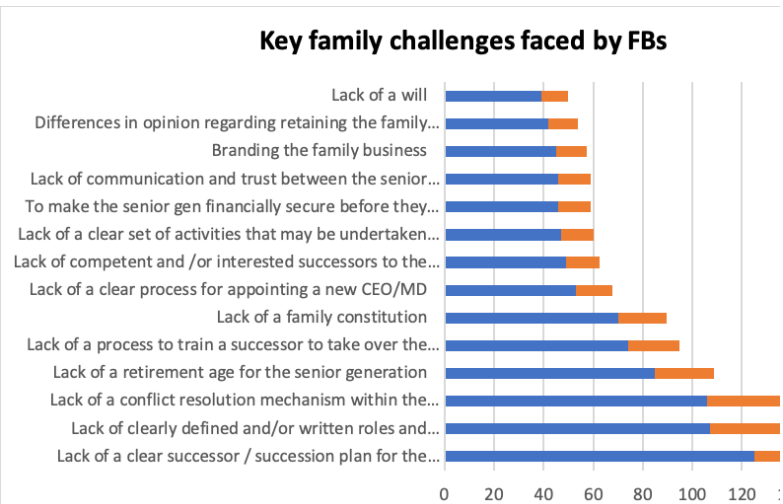
## 6.2 Family Challenges faced by FBs

## 6.1.2 TOP-MOST FAMILY CHALLENGES FACED BY FBS

- 35% of the FBs reported lack of a clear successor/succession plan for the family business as the foremost family challenge.
- Lack of a retirement age for the senior gen was cited by 16% of the FBs surveyed as a top challenge on the family side.
- Lack of clearly defined and/or written roles and responsibilities for all family managers, including women (13%), and lack of a conflict resolution mechanism within the family business (9.5%), were also amongst the topmost family challenges, as reported by the FBs surveyed.
- 4% of the respondents claimed that the lack of a process to train a successor to take over the business was a hindrance.



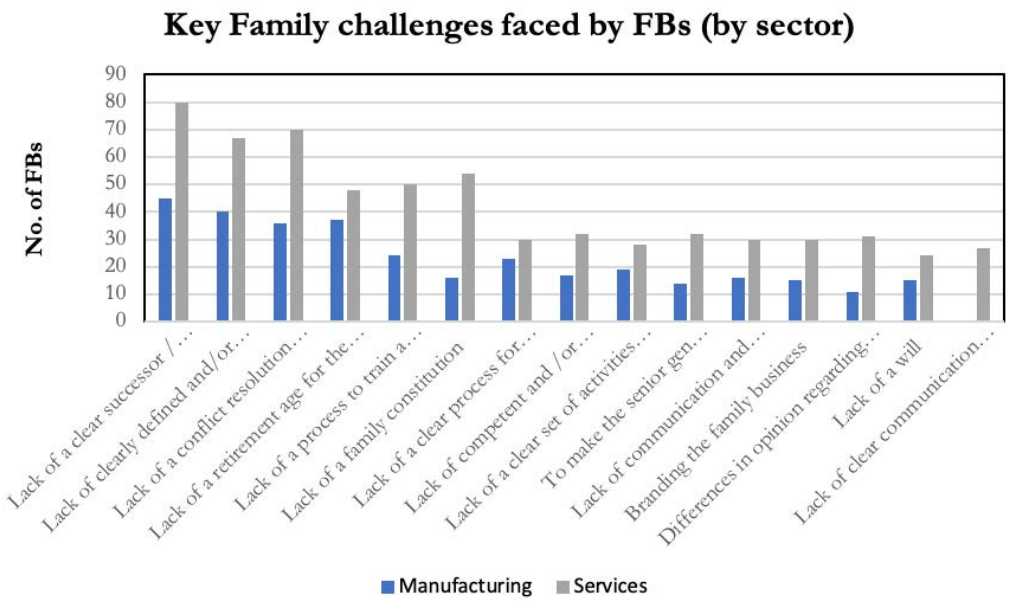

## 6.1.2 KEY FAMILY CHALLENGES FACED BY FBS




- 35% of the FBs reported lack of a clear successor/succession plan for the family business as the foremost family challenge.
- Lack of clearly defined and/or written roles and responsibilities for all family managers, including women, and lack of a conflict resolution mechanism within the family business, were also amongst the topmost family challenges, as reported by 30% of FBs for each parameter.
- Several FBs (approximately 24%) reported that the lack of retirement age for the senior generation was posing as a family challenge.
- 20.7% of the respondents claimed that the lack of a process to train a successor to take over the business was a challenge.
- 19.6% of the FBs reported lack of a family constitution as another key family challenge, while 14.8% claimed that there was lack of a clear process for appointing a new CEO/MD.
- Other family challenges reported were: Lack of competent and /or interested successors to the family business (13.7%), Lack of a clear set of activities that may be undertaken by the senior gen after retirement (13.1%), To make the senior gen financially secure before they pass on their business to the next-gen (12.8%), and lack of communication and trust between the senior and the next-gen (12.8%).

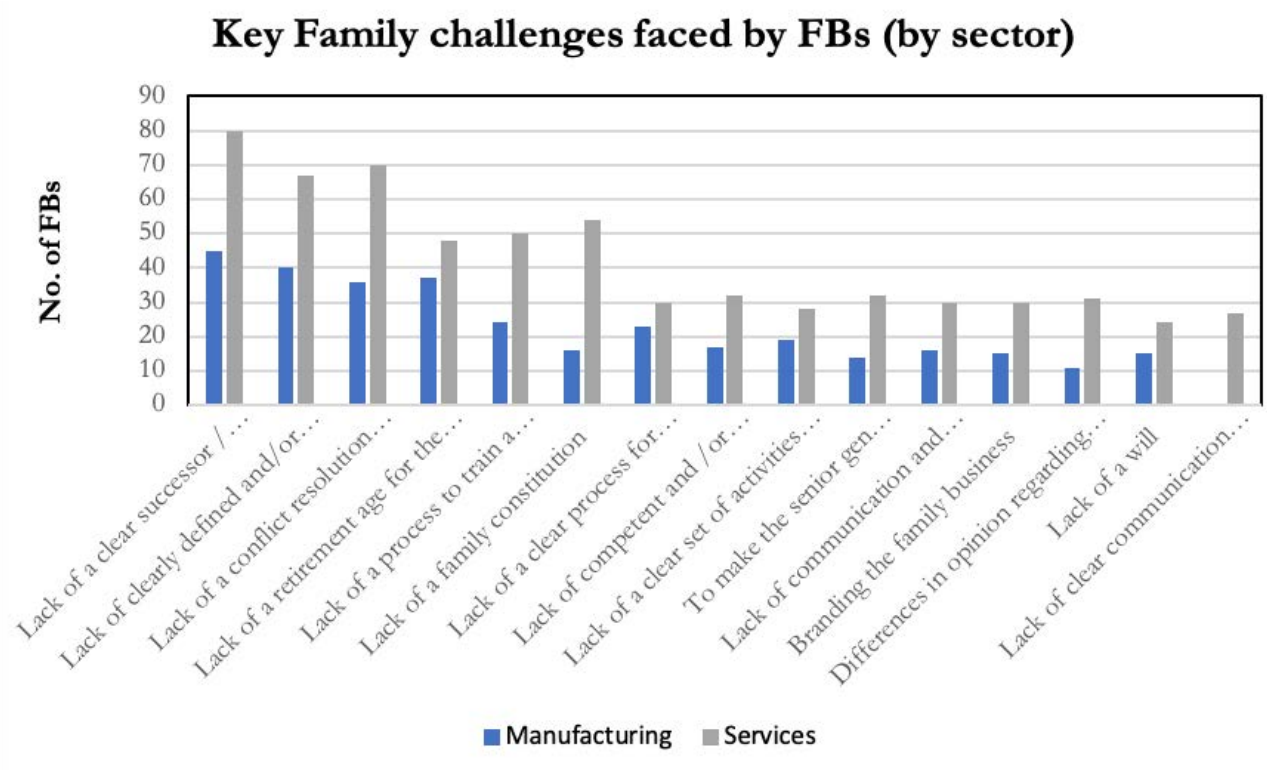
## 6.2.1 FAMILY CHALLENGES BASED ON SECTOR OF ENTERPRISE

- Lack of a clear successor / succession plan for the family business was the biggest family challenge reported by 34% manufacturing and 35% service sector FBs.
- 30.3% of manufacturing and 29.7% service sector enterprises reported lack of clearly defined and/ or written roles and responsibilities for all family managers, including women, as a clear hindrance to smooth running of business.
- Lack of conflict resolution within family business was another essential challenge reported by 27.2% manufacturing and 31% service FBs.




## 6.2.2 FAMILY CHALLENGES BASED ON SIZE OF THE ENTERPRISE

- Lack of a clear successor / succession plan for the family business was the foremost challenge reported by MSMEs. However, the proportion of micro (35.2%) and small enterprises (37.9%) listing it as a problem was slightly higher compared to medium enterprises (31.8%).
- For about 34% of medium enterprises lack of clearly defined and/or written roles and responsibilities for all family managers, including women, was a more pressing challenge.
- 50% of the large enterprises reported lack of a conflict resolution mechanism within the family business as the biggest challenge in business. Lack of a retirement age for the senior generation was the next biggest challenge as reported by 44% of large FBs.

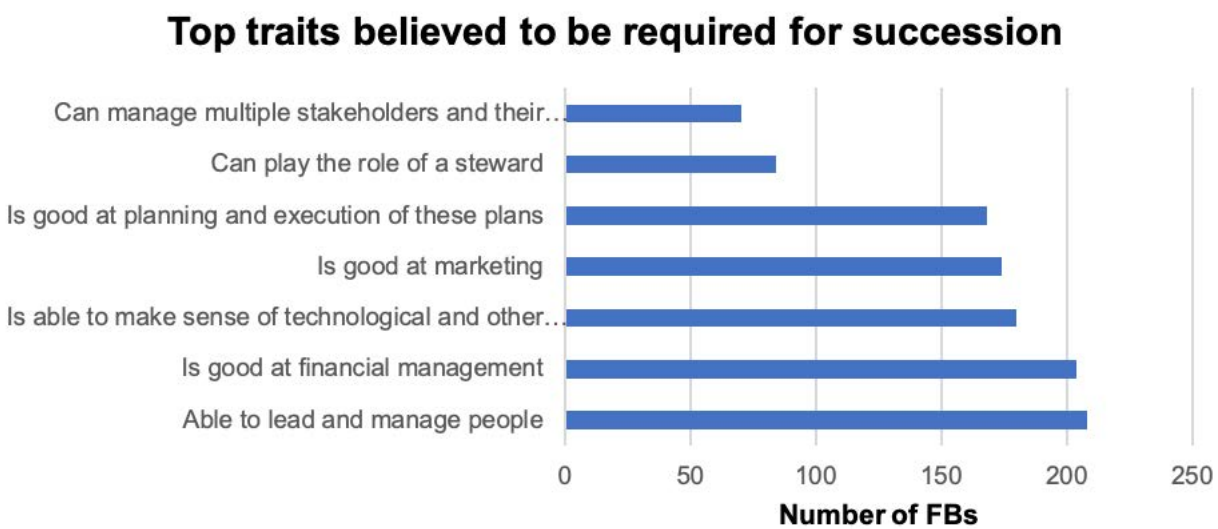

Key Family challenges faced by FBs (by sector)
No. of FBs
90
80
70
60
50
40
30
20
10
0
Lack of a clear successor / …
Lack of clearly defined and/or…
Lack of a conflict resolution…
Lack of a retirement age for the…
Lack of a process to train a…
Lack of a family constitution
Lack of a clear process for…
Lack of competent and /or…
Lack of a clear set of activities…
To make the senior gen…
Lack of communication and…
Branding the family business
Differences in opinion regarding…
Lack of a will
Lack of clear communication…
Manufacturing
Services

# 7

# STATE OF SUCCESSION

## 7.1.1.KEY TRAIT BELIEVED TO BE REQUIRED FOR BEING A SUCCESSOR

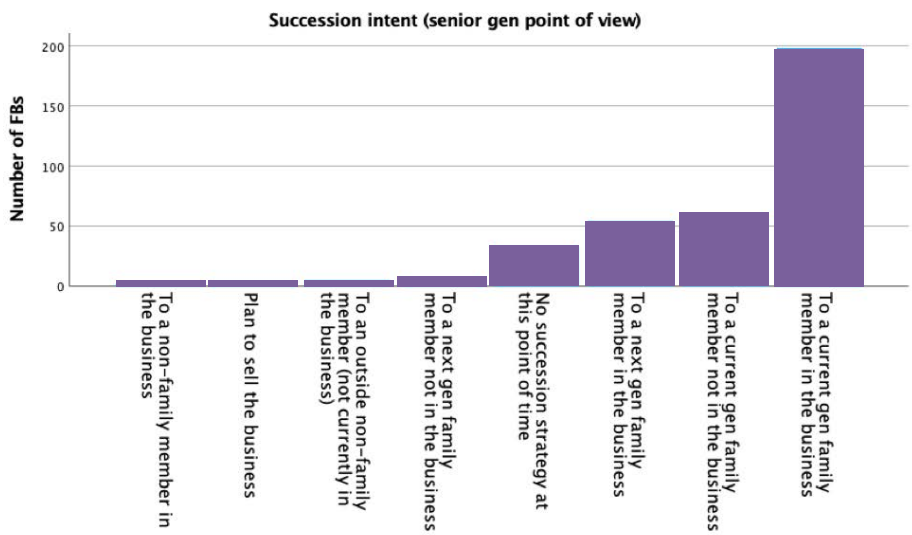
- 208/357 (58%) of the FBs surveyed reported that the key trait required for the successor should be the ability to lead and manage people.
- Other desirable traits included:
  - o Being good at financial management (57.1%)
  - o Being able to make sense of technological and other changes and adapt to the same (50.4%)
  - o Being good at marketing (48.7%).



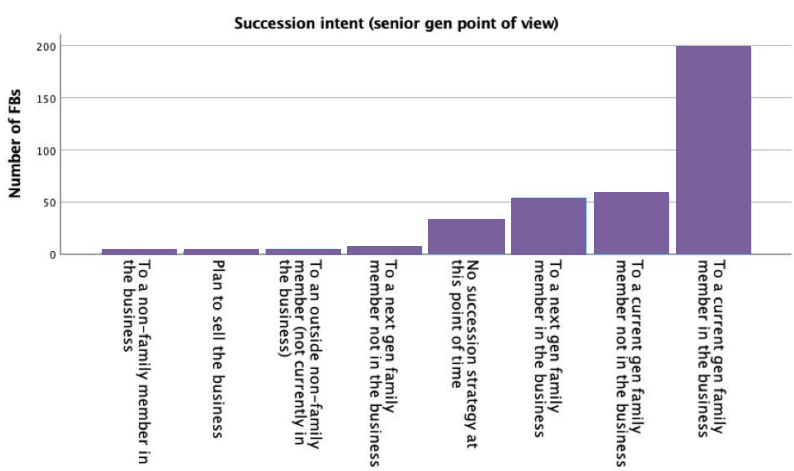

| | Frequency | Percentage (%) |
|---|---|---|
| Able to lead and manage people | 208 | 58.26 |
| Is good at financial management | 204 | 57.14 |
| Is able to make sense of technological and other changes and adapt to the same | 180 | 50.42 |
| Is good at marketing | 174 | 48.74 |
| Is good at planning and execution of these plans | 168 | 47.06 |
| Can play the role of a steward | 84 | 23.53 |
| Can manage multiple stakeholders and their expectations | 70 | 19.61 |
| Total | 357 | 100 |

## 7.2 SUCCESSION INTENT

- A majority of the senior gen respondents of the FBs surveyed (55.5%) stated that they planned to hand over the business to a current generation family member in the business.
- Almost 16% responded that they planned to hand over the business to a current generation family member not in the business.
- The proportion of FBs which might see a transition to the next-generation member currently in the business was only 15%.
- 9% of the senior-gen members said that there was no succession strategy at the time of the survey, while a small proportion (1.4%) stated that they would hand over the business to an outside non-family member currently in the business, while 0.8% planned to sell the business.




- This was more or less corroborated by next-gen respondents, 50% of who stated that the business would likely be handed over to a current generation family member in the business.
- 16.5% felt that the business would be handed over to a next-gen family member in the business, while 16% felt the business would be handed over to a current generation family member not in the business.



- 11% reported that there was no succession strategy they could see at the time.
- 1.7% attested to the fact that the FB would be handed over to a non-family outsider but currently in the business, while 0.8% stated that the business would be sold off.

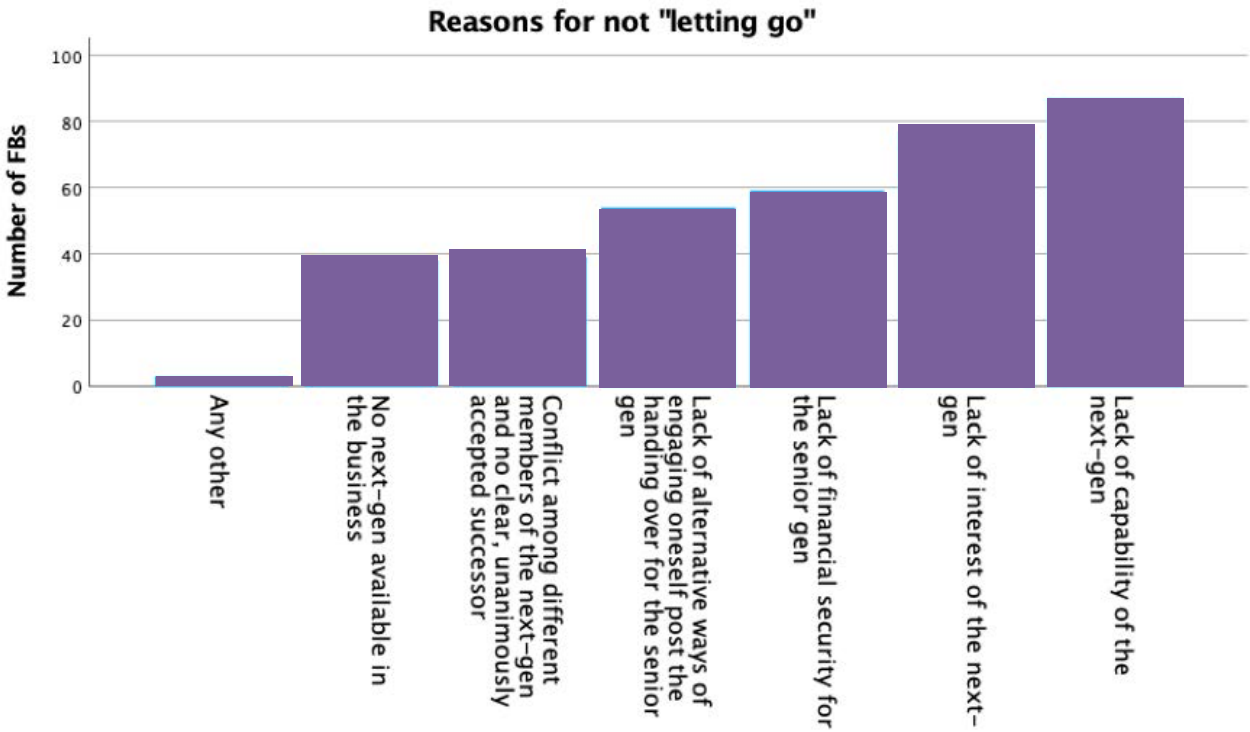
## 7.3 SUCCESSION TIMING

- 58% of the senior gen respondents surveyed that they were still undecided about when they would hand over the business to the next-gen.
- 22.4% stated that they had a clear timing in mind for succession , wanting to give up in 5 years, while 7% looked at handing over to the next generation even earlier, within 2 years.
- 13% were not willing to 'let go' stating that they would run the businesses as long as they could.


- 68% of the respondents from the next-gen were unclear about the timing of succession.
- 23.5% expected to take over in the next 5 years, while 8.5% in the next 2 years.

## 7.4 REASONS FOR NOT 'LETTING GO' TO NEXT GENERATION

- 24% of the respondents from the senior gen stated lack of capability, while 22% stated lack of interest in the next-gen as reasons for not letting go.
- 16.5% stated financial security for themselves, while 15% did not see how they could engage themselves post handing over the business.
- 11% stated conflict among different members of the next-gen as the reason why they were undecided about the timing of the succession.
- About 11% also cited no next-gen member being available to run the business.

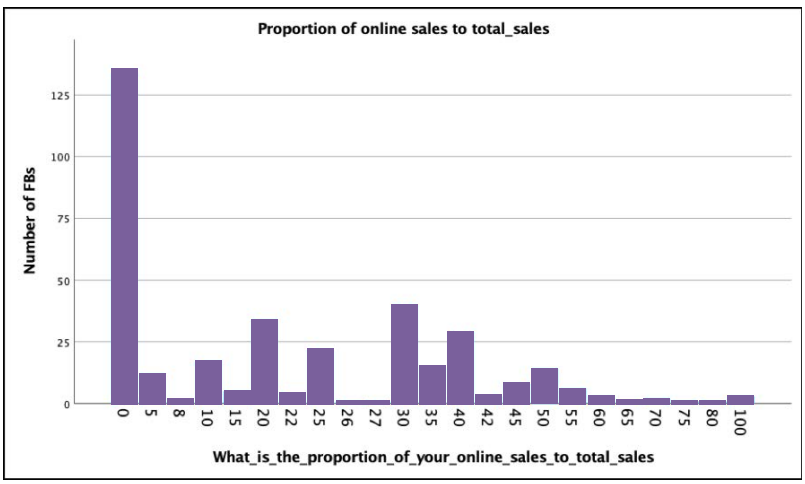


# 8

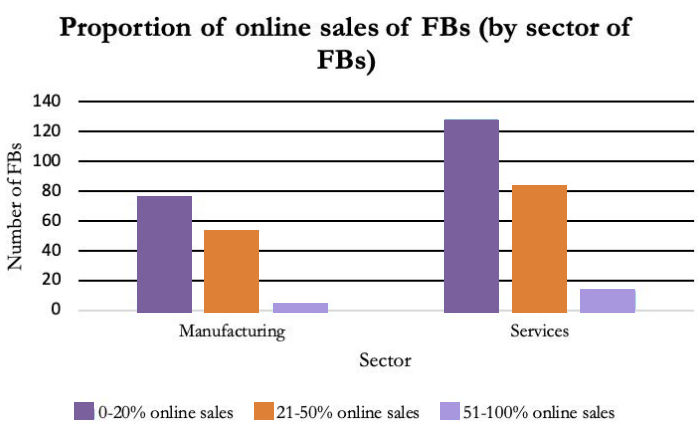
# STATE OF DIGITALIZATION

## 8.1 OVERALL STATE OF ONLINE SALES

- A majority of the FBs surveyed (37.5%) responded that they have no digital sales.
- 57% of the FBs surveyed had only up to 20% of digital sales.
- 38% of the FBs reported the proportion of online sales as ranging between 21-50% of total sales.
- A miniscule proportion (4.7%) reported their online sales were above 50%, with 3/357 (0.8%) reporting 100% online sales.



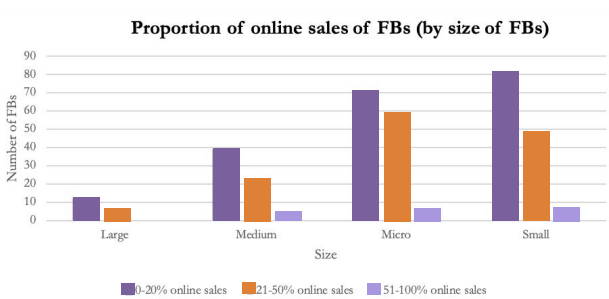

## 8.1.1. ONLINE SALES BASED ON SECTOR OF ENTERPRISE




- The state of revamping business through digitalization showed similar patterns in both the manufacturing and service sector FBs that were surveyed.
- 56% of each of the sector FBs reported that their online sales were less than or equal to 20% of total sales.
- 40.1% of manufacturing FBs and 37.3% of service sector FBs reported their online sales between 21-50% of total sales.
- Only 3% of manufacturing and 5.7% of service enterprises states their online sales above 50%.

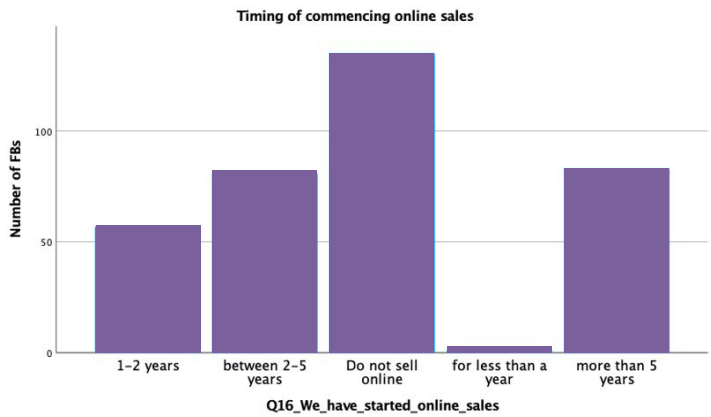
## 8.1.2 ONLINE SALES BASED ON SIZE OF ENTERPRISE

- Majority of the large enterprises (66%) reported that their online sales were in the 0-20% range.
- 33% of the large FMBs reported digital sales as between 21-50% of their overall sales.
- Paradoxically, it seems that it were the SMEs which have adopted technology and gone online.



- The proportion of micro, small and medium enterprises which had online sales of above 50% were 6/136 (4.4%), 7/137 (5%) and 4/66 (6%) respectively. No large enterprise sold more than 50% of its total sales online.
- 43% micro, 36% small, and 35% medium enterprises reported that their online sales were between 21-50%.
- On the other hand, 32% of micro, 42.3% small and 39% medium enterprises reported zero digital sales.

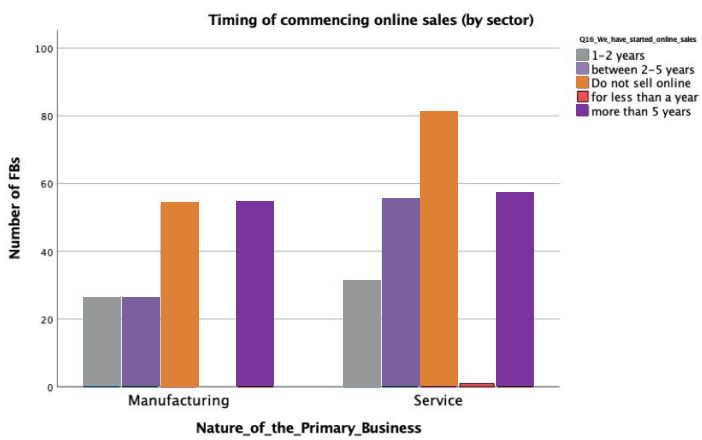
## 8.2 TIMELINE OF ONLINE SALES




- 23% of the FBs surveyed reported that they began online sales over 5 years back, while 22.7% started their sales between 2 to 5 years ago.
- A miniscule number of FBs (0.2%) reported that they have begun online sales less than a year ago.
- A majority (37.8%) claimed that they do not sell online.

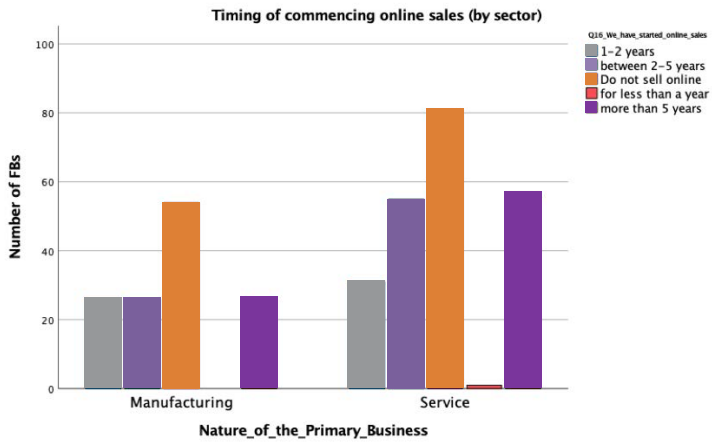
### 8.2.1 TIMELINE OF ONLINE SALES BASED ON SECTOR OF ENTERPRISE

- 25% of service sector enterprises reported that they have been carrying out online sales for more than 5 years. The proportion was less for manufacturing enterprises at 19.7%. The proportion was the same for sales which commenced between 2 to 5 years.
- 19.7% of manufacturing FBs started selling their products online in the past 1-2 years, compared to 13.8% of service sector firms.
- Overall, 41% of manufacturing and 36% of service FBs reported that they do not sell online.



## 8.2.3 TIMELINE OF ONLINE SALES BASED ON SIZE OF ENTERPRISE

- Majority of MSME's surveyed reported that they do not conduct sales online (32.4% micro, 43% small and 39.4% medium enterprises).
- A similar proportion of micro enterprises (24.3%) reported that they have commenced online sales between 1-2 years and 2-5 years.
- 10% of small FBs and 22% small FBs reported that they had commenced online sales between 1-2 years and 2-5 years back respectively.




- 14% and 23% respectively of medium FBs reported that they had commenced online sales between 1-2 years and 2-5 years back respectively.
- 19% micro, 25% of small and 23% of medium enterprises reported that they started online sales over 5 years back.
- Though about 30% of large enterprises reported that they were not selling online, majority (44.4%) stated that they have been conducting online sales for more than 5 years.

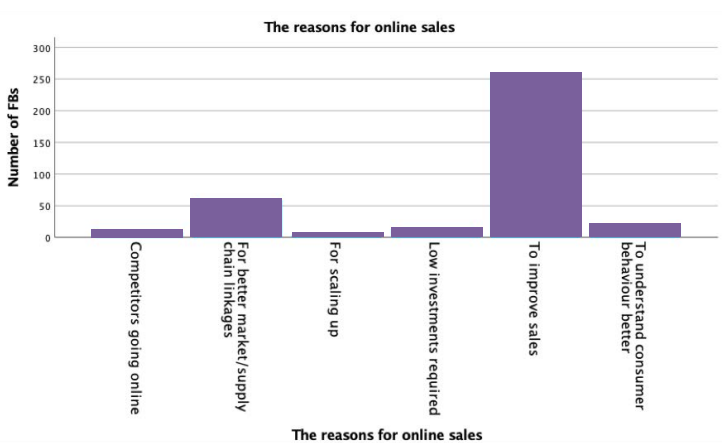
## 8.4 REASONS FOR ONLINE SALES

o 72% of the FBs reported that they would like to sell online so as to improve sales

o 16.5% of the FBs surveyed accounted for their preference for digital sales so as to help them with better market and supply chain linkages

o 4.5% of the FBs felt that online sales would help them understand consumer behaviour better.

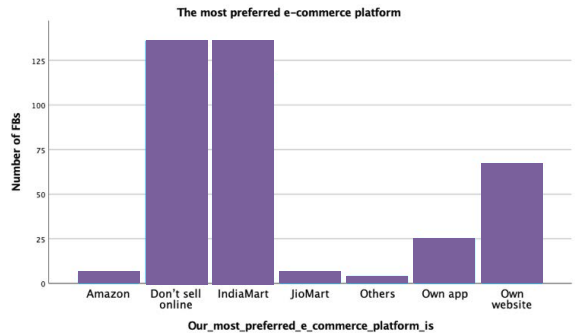
o 4% felt that such sales required lesser investment, while a smaller proportion (2.2%) reported their desire to go online since their competitors were doing so.



## 8.5 Preferences with respect to digitalization

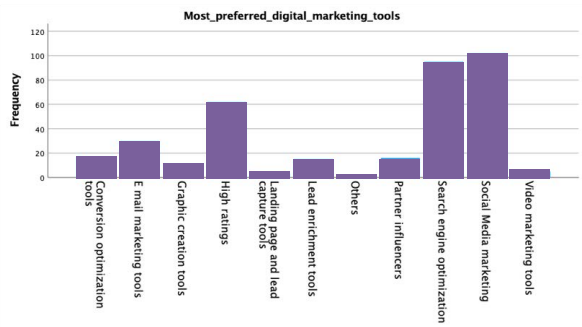
### 8.5.1 PREFERRED E-COMMERCE PLATFORM

- 32.5% of the FBs reported that they prefer IndiaMart as their most preferred e-commerce website to conduct online sales.
- 18.7% stated that they have their own websites to perform digital sales.
- Other preferred e-commerce platforms were: Amazon (1.4%), JioMart (1.1%) and Zomato (0.56%).



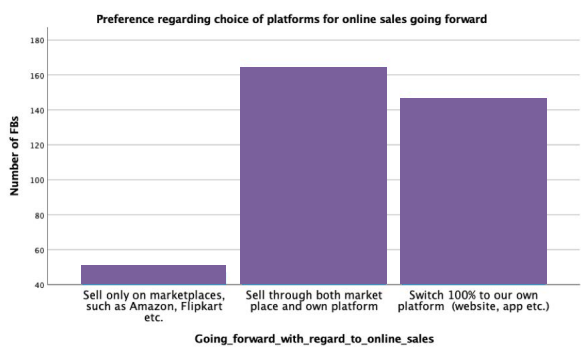

### 8.5.2 PREFERRED DIGITAL MARKETING TOOLS

- 28.6% of the FBs surveyed responded that they preferred social media marketing, while 26.6% reported search engine optimization as their most preferred digital marketing tool.
- Ratings from customers also serve as a digital marketing tool for 17.4% FBs.
- 8.4% of the FBs reported using e-mail marketing tools, 4.8% as using conversion optimization tools, while 4.5% reported opting for partner influencers.




### 8.5.3 PREFERENCES OF FBS WITH RESPECT TO ONLINE SALES IN THE FUTURE

- When probed about their future preferences regarding online sales, 46% of the FBs reported that they would prefer to conduct online sales through both marketplace as well their own platforms.
- 40.9% responded that they would prefer to go independent digitally, and switch 100% to their own platform (website or app).
- 13.7% reported that they would sell only on preferred online platforms such as Amazon, Flipkart, etc.



# THE WAY FORWARD

As the Indian economy remains one dominated by small and medium FBs, our report points to certain key concern areas emanating from the organizational structure of these FBs, besides the threats posed by the business environment.

From a business perspective, Indian family businesses have been facing threats to their competitiveness due to the persisting inflation and the escalating costs related to raw materials and labour. The Reserve Bank of India will need to consider strategic policy interventions to uphold the competitive edge of Indian family businesses.

Likewise, despite existing awareness and willingness to embrace digital transformation, the current state of technology integration and preparedness among Indian FBs, especially small FBs, remains suboptimal. The government will need to come up with a set of policy incentives to encourage technology adoption and the incorporation of digital solutions for operational enhancement, customer outreach, and competitive positioning. FBs could use digitalization to potentially reconcile the paradox that our reports points out to, namely the sustained business tenure of long-lasting FBs, without commensurate growth and scaling up.

From a family perspective, founder dependence is a key area of concern, accentuated by the reluctance on the part of the senior-generation members to relinquish control. It is important for family business advisors, and other interest groups to pay attention to this vital aspect of family business success. Addressing the key concerns in this area would involve getting a next-gen ready to take on the mantle of running the family business, with all its attendant challenges. For MSME family enterprises, the solution involves not only targeted training initiatives catering to specialized domains, but also a greater emphasis on leadership and human resource development programs. Our survey reveals that in order to take advantage of the positive business environment, it is important to address some of the softer elements of family business dynamics.

# About SPJIMR

S. P. Jain Institute of Management and Research (SPJIMR) is a constituent of Bharatiya Vidya Bhavan, an institution founded in 1938- almost a decade before India's Independence, with the objective of preserving and propagating Indian culture and Sanskrit. SPJIMR is among the top five business schools of India and as a premier management school is known for its pedagogic innovations and pioneering programs, particularly in socially under-managed sectors. The programs have helped SPJIMR stand out for its unique, innovative and distinct path in management education.

# About the Centre for Family Business & Entrepreneurship

The Centre for Family Business & Entrepreneurship (CFBE) is one of SPJIMR's flagship centres, which runs distinctive programmes for members belonging to family businesses as well as for entrepreneurs. The Centre's vision is to be the fountainhead for an agile, resilient, and sustainable family business and entrepreneurship ecosystem with a global outlook. Its Post Graduate Programme for Family Managed Business (PGP-FMB) was the first ever Indian management programme designed for members of the next-generation within family businesses. The Centre holds the distinction of having facilitated learning for members of family businesses across India and its neighbouring countries (including Pakistan, Bangladesh, and Nepal) ever since its inception in 1997. The Centre's 4000+ strong alumni base, with well- recognised and loved brand names, both within India and globally across multiple sectors, attests to the strength of the programme in nurturing and developing the family business eco-system. The Centre also offers a Start Your Business (SYB) programme, directed towards aspiring entrepreneurs and early-stage start-ups. The goal of this programme is to provide knowledge and skills and instill among the start-up entrepreneurs the right attitude, which would help them create a sustainable venture.

The Centre, through its research and outreach activities, seeks to be a thought leader in the family business space. It is a member of the STEP Project Global Consortium - a global research initiative with specific focus on family businesses. The CFBE, in its role of supporting entrepreneurship, also runs capacity-building initiatives and programmes for continuous professional development. Its 'vRddhi' accelerator initiative, available to SPJIMR CFBE alumni, seeks to help entrepreneurs and family businesses bridge their funding gaps and to grow and scale up through mentoring them. vRddhi provides a platform for connecting fund-seeking family businesses/entrepreneurial ventures with those that are fund providers.

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